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PROPOSED CHANGES IN THE SURVIVOR BENEFIT PLAN

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BEFORE THE

SUBCOMMITTEE ON
MANPOWER AND PERSONNEL

OF THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

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PROPOSED CHANGES IN THE SURVIVOR BENEFIT PLAN

THURSDAY, JUNE 20, 1985

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON MANPOWER AND PERSONNEL,
Washington, DC.

The subcommittee met in open session, pursuant to notice, at 9:08 a.m., in room SR-232A, Russell Senate Office Building, Senator Pete Wilson (chairman) presiding.

Present: Senators Wilson, Exon, and Glenn.

Staff present: Patrick A. Tucker, counsel; Patricia L. Watson, research assistant; George K. Johnson, Jr., and David S. Lyles, professional staff members; and Mary J. Kampo, staff assistant.

Also present: Jeffrey B. Subko, assistant to Senator Exon; and Phillip P. Upschulte, assistant to Senator Glenn.

OPENING STATEMENT BY SENATOR PETE WILSON, PRESIDING

Senator WILSON. Good morning, ladies and gentlemen. The subcommittee will come to order.

The subcommittee is meeting this morning to consider changes to the Survivor Benefit Plan, as proposed by the House Armed Services Committee and to the committee's reported version of the Department of Defense Authorization Act for fiscal year 1986. The purpose of this hearing is to explore those proposed changes and to establish the basis for Senate action during the conference with the House on these provisions.

Our witnesses this morning include representatives of the Congressional Budget Office, representatives of the interested parties, the recipients. The first witness is Mr. Robert F. Hale, the Assistant Director of the National Security Division of the Congressional Budget Office, who will present the CBO analysis of the cost impact of the proposed changes in the Survivor Benefit Plan.

We will next hear from Lt. Gen. Edgar A. Chavarrie, Deputy Assistant Secretary of Defense for Military Personnel and Force Management, who will present the Department's views and suggestions about the House provisions.

Finally we will hear from a panel of three witnesses representing interested military associations. Those witnesses are Col. Paul Arcari, deputy director for legislative affairs, the Retired Officers Association; Rosemary A. Locke, Survivor Benefit Plan study chairman of the National Military Family Association; and Sgt. Maj.

Mack McKinney, vice president for Government Affairs of the Non-Commissioned Officers Association.

I welcome each of our witnesses this morning. We are very grateful to you for coming. We look forward to hearing from you. Before we proceed to hear from the witnesses, let me call upon my distinguished friend and colleague from Ohio, Senator Glenn, the subcommittee's ranking member.

Senator GLENN. Thank you, Mr. Chairman.

Just a couple of very short words here. I am pleased that the hearing has been called to consider these changes proposed by the House Armed Services Committee to the Survivor Benefit Plan. This plan may be a small program compared to the overall defense budget; it is. We are used to dealing in hundreds of billions in this room when we get into some of these discussions here and on the parent committee, the full Armed Services Committee; but I will tell you it is also the full budget for many retirees, too.

I know from having a career in the Marine Corps myself in an earlier incarnation that you looked at this as deferred income and you put up with reduced pay and so on because you were going to get this deferred income, as you saw it. It was not gratuitous; it was something you were earning.

And when we start messing around with the retirement benefits and changing them one way or the other, we better be very, very careful what it does to not only the morale of our retirees, but also to those in the service right now. So it is something we have to consider very, very carefully.

For many retired military members and their dependents, it represents the single most important element of their estate planning for themselves, their families, survivorship of wife or spouse, and that is the reason it is so important. So while the changes proposed by the House to this plan appear to be constructive changes, I think it is very important that we on the subcommittee carry out our own independent analysis of these proposals.

So I join the Chairman in welcoming our witnesses to this subcommittee this morning and look forward to their testimony, and will have questions for them after their statements.

Thank you, Mr. Chairman.

Senator WILSON. Thank you very much, Senator Glenn.

Now, Mr. Hale, if you will proceed, thank you.

STATEMENT OF ROBERT F. HALE, ASSISTANT DIRECTOR FOR NATIONAL SECURITY DIVISION, CONGRESSIONAL BUDGET OFFICE, ACCOMPANIED BY DR. NEIL SINGER, AND JULIE DOHERTY

Mr. HALE. Thank you, Mr. Chairman. I am pleased also to appear today to testify on the military Survivor Benefit Plan. I have with me Dr. Neil Singer and Miss Julia Doherty from the CBO, who have worked extensively on this analysis.

My testimony will focus on the provisions of the current plan and the changes proposed by the House Armed Services Committee (HASC) and their version of H.R. 1872, which I might add may be amended somewhat on the floor. I will comment on that as I can. I will start off with some general comments and then turn, if I might, to some more detail.

The current plan, as I think you know, Mr. Chairman, is a voluntary one. Those retirees who join contribute through reductions in their pensions, in return, their survivors receive benefits. Today nearly 800,000 military retirees participate in the Survivor Benefit Plan, and about 94,000 survivors are receiving benefits.

Critics argue the current plan is too complex—I think I will probably convince you of that today—and that it is inequitable because, in some cases, it provides different benefits——

Senator WILSON. We can probably stipulate to that at the outset.

Mr. HALE [continuing]. Provides different benefits to survivors of members who make essentially the same contributions. There is also a concern that because of the nature of the formula used to calculate the contribution, future retirees will pay an increasing share of the costs.

The HASC proposal makes changes designed to simplify the plan. It would also tend to stabilize the portion of costs borne by future retirees at about 62 percent, roughly the same percent as those retiring today. These improvements would come at some added cost. If the HASC proposal is enacted, the long-run or accrual costs that appear in the 1986 DOD budget would increase to about $446 million by our estimate. That compares to costs under current law that range from $226 million to $298 million, depending on the interpretation of some changes to current law enacted last year.

That is the general comment. Let me turn to some more specifics, first the provisions of current law.

PROVISIONS OF CURRENT LAW

Under current law, members must make an irrevocable decision at time of retirement about whether to participate. If they do, they can cover any part of their retirement pay up to 100 percent.

CONTRIBUTION FORMULA

Members pay part of the cost of the program through deductions in their retired pay. For the first $300 per month of covered retired pay, that reduction is 2.5 cents per dollar covered; above $300, it is 10 cents per dollar covered.

The $300 base is not indexed or changed as retired pay changes, along with wage increases. And thus the percentage of retired pay that members pay for survivor benefits may be higher for future retirees.

I am going to run through a quick example to show you how that happens. I will assume that a current retiree decides to cover $1,000 a month of retired pay. His pension would then be reduced by $77.50 a month, or 7.75 percent. Each time inflation causes a percentage increase in pay, the covered amount and the contribution go up. So if inflation pushed that pay up to, say, $1,200, the contribution would still be, for that member, 7.75 percent, although the dollar amount would now be $93.

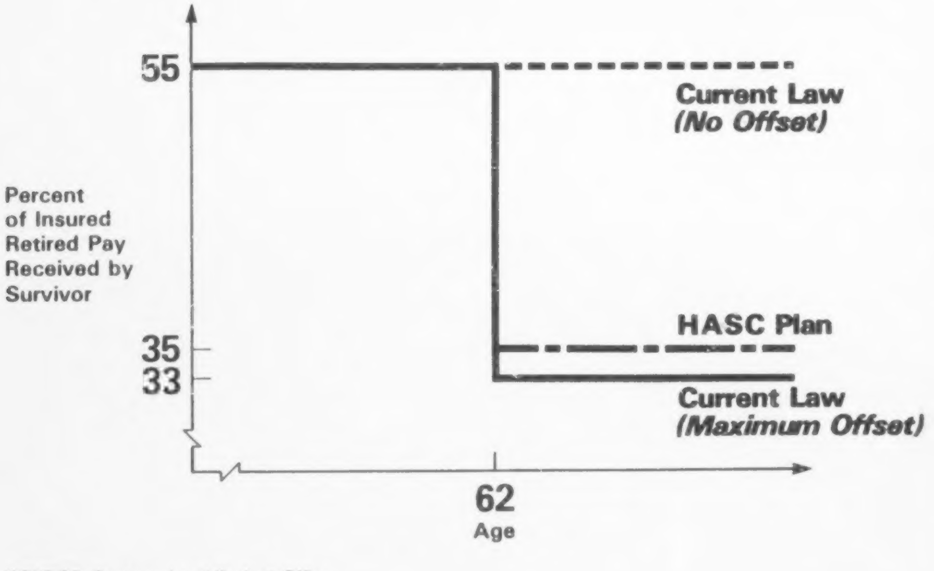
Now take the case of a future retiree who retires with a monthly pension of $1,200 and covers it all. The survivor will probably get the same benefits as the survivor of the earlier retiree—both are covering $1,200—but the future retiree will contribute $97.50 a month, or 8.125 percent, of retired pay. This occurs because, when the contribution is first established using the formula, more of the future retiree's pay will be subject to that 10 percent portion of the formula than was the case for the earlier retiree.

This gradual increase in the contribution means those retiring in future years will pay an increasing share of the cost, and this is one important aspect of the current plan dealt with in the HASC proposal.

BENEFITS

Now let me turn to the benefits. Up to age 62, survivors receive annuities equal to 55 percent of members' covered pay. You can see that in the attached chart—55 percent for all up to age 62. At age 62, when the survivor first becomes eligible for Social Security, whether the survivor receives it or not, the annuity is reduced for most survivors by the amount of Social Security that would have been received, based on the member's military income.

Lifetime Survivor Benefit Payments



SOURCE: Congressional Budget Office.

So if a widow is eligible for $200 a month in total Social Security and $100 of that is based on the member's earnings while in the military, her pension or benefits would be reduced by $100 a month. The offset, however, under current law cannot exceed 40 percent of the benefits.

Most survivors today are subject to the 40 percent reduction, so at age 62 what they would receive goes from 55 down to 33 percent of covered retired pay. Some survivors, however, receive more than

33 percent. Survivors of senior officers whose Social Security is lower in relation to their incomes would receive more than 33 percent; so would survivors of some members who had extensive service before 1957, when the military first became covered by Social Security.

Moreover, starting in fiscal year 1986, there will be even more variation under current law. Last year the Congress enacted the Thurmond amendment, effective in fiscal year 1986, to change the Social Security offset for survivors to the extent that their social security benefits are based on their own income. Now there are some possible practical problems and some ambiguities associated with implementing the amendment, and final rulings have yet to be issued by the Comptroller General.

So our discussion is going to consider two possible interpretations of the language of that amendment. The narrow interpretation would require elimination of the entire social security offset, but only for survivors who receive, Social Security benefits based entirely on their own earnings.

CBO estimates that, under this narrow interpretation, about 10 percent of all survivors would avoid paying the offset entirely, starting next fiscal year. Their benefits would remain at 55 percent, even after age 62—that is, again, under current law, with this narrow interpretation.

The broad interpretation of the Thurmond amendment would reduce the Social Security offset in proportion to the amount of the social security benefit that is earned by the survivor. Let me assume, for example, that a survivor receives $200 a month in total social security benefits, and $100 a month are based on his or her own earnings. Under the broad interpretation, this survivor would be subject to only half the full Social Security offset based on the retiree's earnings.

CBO estimates that under this broad interpretation about 30 percent of all survivors would have reduced offsets. The amount they would receive after age 62 would vary between 33 percent and 55 percent of covered retirement pay.

I think this discussion suggests a second issue in current law addressed by the HASC proposal. Members contributing the same amount may have survivors who receive different benefits. As you stipulated, Mr. Chairman, I think this discussion also suggests the plan is complex, and there is uncertainty as well.

The Social Security offset itself is based on a complex calculation that cannot be made until the retiree dies or reaches age 62, whichever comes first. Hence, at the time the retiree and spouse are required to make an irrevocable decision about whether to participate in the Survivor Benefit Plan, they do not know the exact amount of benefits the survivor could eventually receive.

PROVISIONS OF THE HASC PROPOSAL

The HASC proposal would make several changes intended to address these issues.

To simplify the program, the HASC proposal would eliminate entirely the social security offset, thus obviating the complexity and uncertainty associated with it. Instead, survivors would receive 55 percent of covered pay until age 62, and 35 percent thereafter, again as shown on the chart. The 55 percent would be the same as current law; the HASC plan, shown in red, would be 35 percent. This is a two-tier plan, essentially—higher benefits until age 62, when the survivor would become eligible for social security; lower benefits thereafter. And this two-tier plan would provide the same survivor benefits for all who cover the same amount of retired pay.

To help keep the cost of the program from rising for future retirees, the HASC proposal would index the $300 basic amount in the contribution formula, and the $300 base then would increase every time military retired pay increased and by the same percentage. This would avoid a situation in which future retirees might contribute a higher percentage of their pay than current retirees, and hence bear more of the program's cost.

I might add it is my understanding that there may be a change to this provision on the House floor which would index this not to retired pay but to increases in basic pay. That change would even make it more probable that you would stabilize the ratio that is borne by future retirees. I can go into that later if you like.

The HASC also added two new provisions designed to improve equity and consistency with the Survivor Benefit Plan for civil servants. The first would require the concurrence of a retiring member's spouse if the member wished to decline SBP coverage or to cover less than 100 percent. Under this so-called "spousal concurrence" provision, the spouse may in effect be able to require full coverage.

TABLE 1.—PERCENT OF COSTS BORNE BY RETIREES UNDER ALTERNATIVE SURVIVOR BENEFIT PLANS

[For the average retiree entering military service in fiscal year 1986]

	Percent
Current law:	
Narrow interpretation	70
Broad interpretation	64
Without Thurmond Amendment	73
HASC proposals:	
Two-tier plan only	69
Two-tier and indexing only	58
Two-tier, indexing, and spousal concurrence only	61
Two-tier, indexing, spousal concurrence, and remarriage option (all HASC proposals)	62

The second provision would give participating retirees who remarry and their new spouses the option of declining or reducing coverage. At present, resumption of coverage and deduction is automatic when the participating member remarries.

In addition to these key changes, the HASC proposals provide a save-pay provision intended to prevent any reduction in payments to current beneficiaries or to those who are eligible to retire or who have already retired. The HASC also proposes several other more minor changes in eligibility. They do not have major effects on costs, and I am not going to discuss them further in my testimony.

Let me turn now to one way of evaluating the current plan and also the HASC proposal, and that is the portion of the cost that members will hear of this program.

EFFECTS ON COST SHARING

Under current law, members retiring today will bear about 62 percent of the cost of the Survivor Benefit Program. That is roughly consistent with the HASC goal of about 60 percent for cost-sharing. Those retiring in the future, however, will pay more because of the absence of the indexing in the contribution formula that I discussed earlier. CBO estimates that those entering military service next fiscal year, in fiscal year 1986, and therefore retiring in 20 years or more, will bear between 64 percent and 70 percent of the cost when they eventually retire. The 70 percent would prevail under the narrow interpretation of the Thurmond amendment; the 64 percent would prevail under the broad interpretation.

These estimates of costs borne by retirees are based on a number of technical assumptions that are listed there in my statement. The changes proposed by the House Armed Services Committee, taken together, would tend to stabilize the portion of cost borne by the average retiree, both those retiring today and in the future, at about 62 percent. The change would avoid the increase for future retirees that is likely to occur under current law, and 62 percent, again, is close to the 60 percent level urged by the HASC.

The individual proposals made by the HASC would have differing effects on cost-sharing, and those differences are laid out in table 1 of my statement.

I should note, Mr. Chairman, these estimates are subject to a fair amount of uncertainty, primarily because changes in behavior, especially willingness to participate in the plan, could affect the numbers. Unfortunately, we do not have very good information under which to predict how people's participation would change. The uncertainties are particularly important for the spousal concurrence provision and the one providing optional coverage upon remarriage. We have essentially no information to estimate the extent to which these options would change behavior.

I have said something about how costs would be shared. The HASC proposal would stabilize how much people pay for the program at roughly today's level. Let me turn to cost to the Government.

TABLE 2.—*1986 accrual costs under alternative survivor benefit plans*

[In millions of dollars]

Current law:	
Narrow interpretation	$226
Broad interpretation	$298
HASC proposals	$446
Change relative to current law (narrow interpretation) resulting from:	
Two-tier plan eliminating Social Security offset	+7
Indexing $300 to retired pay changes	+86
Optional coverage upon remarriage	−18
Spousal concurrence	+146

COSTS OF THE CHANGES

The Survivor Benefit Plan is one component of the overall military retirement system and, accordingly, is subject to the accrual accounting procedures used to budget for military retirement. Under this accrual approach, as I think you know, funds are set aside in current budgets to build a trust fund sufficiently large to pay benefits to future retirees and their survivors.

CBO estimates that the 1986 accrual cost of the current Survivor Benefit Plan ranges between $226 million and $298 million. The lower figure represents costs under the narrow interpretation of the Thurmond amendment, where fewer people would avoid the offset, while the higher figure represents costs under the broad interpretation, when more people would avoid the offset.

Under the proposals made by the House Armed Services Committee, the accrual charge for 1986 would be about $446 million. Thus, the accrual charge would be $220 million higher than under the current law; assuming the narrow interpretation, it would almost double. Looked at another way, the HASC plan would raise the accrual charge for the Survivor Benefit Plan to 2.4 percent of the total accrual cost of military retirement, compared to between 1.2 and 1.6 under current law, again depending on the interpretation of the Thurmond amendment. I think this bears out Senator Glenn's point that this is a fairly small percentage of the total retirement costs.

The specific HASC proposals vary widely in the amount they would add to the accrual charge. The major provisions would aid relatively little. Elimination of the Social Security offset, accompanied by the two-tier plan, would account for about only $7 million of the total increase of $220 million.

The addition would be small because, as this chart suggests, most survivors are going to get about the same amounts under current law or the HASC plan. All would get 55 percent of covered retired pay to age 62. Under current law, after age 62 most would get 33 percent, but under the HASC plan they would get 35 percent—not much of a change for most survivors.

Indexing the $300 base in the contribution formula, which would tend to stabilize the portion of costs borne by the retiree, would add about $86 million to the accrual charge. I might add, that is indexing to changes in retired pay. If you indexed to increases in basic pay, that $86 million would become closer to $100 million.

The provision allowing those who remarry to drop or reduce their coverage would actually decrease the accrual charge by $18 million. The Government would avoid paying its share for those who drop coverage.

By far the largest change in the accrual cost would come from the provision allowing spouses to insist on full coverage. CBO assumes that, with spousal concurrence, about half of those who are now eligible and decline or limit coverage would take it, and all might increase the amount of pay that is covered. Under these assumptions, the proposal would increase the accrual charge in 1986 by $146 million.

As I noted earlier, there is very little evidence, unfortunately, to determine exactly how this provision or the remarriage option would affect behavior, so both these estimates should be regarded as rough approximations.

Now these accrual costs approximate long-run costs, and so I think they are the best ones for you to concentrate on as you judge the HASC proposal. Accrual costs are also ones that appear in the DOD budget. But accrual cost changes do differ from changes in outlays. After all, we are setting aside money for the future with the accrual, whereas outlays are actually checks that are written.

TABLE 3.—CHANGES IN OUTLAYS RELATIVE TO CURRENT LAW UNDER ALTERNATIVE SURVIVOR BENEFIT PROVISIONS

[In millions of dollars] [1]

	1986	1986-90
Two-tier plan eliminating Social Security offsets	+14	+104
Indexing $300 to changes in retired pay	—	+5
Optional coverage upon remarriage	—	−2
Spousal concurrence	−19	−237
HASC proposals	−5	−130

[1] Estimates of current law assume narrow interpretation of Thurmond Amendment.

As table 3 in my statement shows, the HASC proposals actually reduce Government outlays over the next few years and hence would actually reduce the near-term Federal deficit by modest amounts. The reductions in outlays occur largely because more retirees would participate and so there would be more contributions in the next few years. Eventually outlays would increase as these additional participants' survivors began to receive benefits.

I have taken you through a lot of detail, Mr. Chairman and Senator Glenn. I would like to come back now in summary and make a few general points, again about current law and the HASC plan.

The current Survivor Benefit Plan is quite complex, as I think you are now quite convinced, and that is largely because of the Social Security offset. The current plan would also result in future retirees bearing an increasing share of program costs. The HASC proposal would simplify the system, and it would tend to stabilize the portion of costs borne by the retiree.

The HASC proposals also have other features—spousal concurrence and optional coverage upon remarriage—which the HASC argues would make the military plan more equitable and more consistent with the civil service plan.

These provisions come at some cost. Accrual cost for survivor benefits in 1986 would rise to $446 million, about twice the cost under current law with the narrow interpretation of the Thurmond amendment. In relation to the total charge for military retirement, costs would be about 2.4 percent under the HASC proposal, instead of 1.2 percent under current law, with again the narrow interpretation. So even under the HASC proposal, accrual costs for survivor benefits could still be or would still be a relatively small fraction of the total cost of military retirement.

Mr. Chairman, that concludes my prepared statement. My colleagues and I would be glad to answer any questions that you have.

Senator **Wilson**. Thank you very much, Mr. Hale.

You have dealt with what we stipulated to be a complex subject very clearly.

In your formal statement you said that CBO estimates that under current law those entering military service in fiscal year 1986 will bear between 64 and 70 percent of the costs of the Survivor Benefit Plan when they ultimately retire, the variation depending on the narrow and broad interpretation of the Thurmond amendment.

My understanding of the underlying funding concept of the Survivor Benefit Plan, when it was enacted in 1972, was that members should bear approximately 60 percent of the cost of the program. What percentage of the costs of the program is being borne by those retiring in 1986?

Mr. HALE. It would be about 62 percent, very close to the 60 percent target, Mr. Chairman. The increase occurs because the lack of indexing in the formula pushes up the amount of cost that future retirees bear. So right now, for those retiring in 1986, the cost would be approximately the level that was envisioned when the plan was first passed in 1972.

Senator WILSON. Perhaps you can explain something that we might be able to dig out of the legislative history. Was the purpose in enacting a formula of this kind in 1972 based on an expectation that as wages rose, as compensation rose, the $300 cap—not cap but the $300 break point—would remain in place so that clearly as time went on and compensation increased those at the upper grades receiving more would be paying a higher share?

Or was it intended that from time to time that $300 figure would be revisited and revised so as to allow for an equal sharing, an equal ratio, without regard to grade or increased compensation?

Mr. HALE. My recollection of the 1972 legislative history is not in detail. I do not think the $300 figure was addressed very much. That was a period of time when inflation had not gotten to the nasty levels we experienced in the late 1970's, and I do not think the Congress gave a lot of consideration to worrying about whether that problem would occur.

Senator WILSON. It follows the grand old congressional tradition—we will worry about that tomorrow.

Mr. HALE. I think it is clear, Mr. Chairman, that the 1972 law did not envision substantial increases in the portion borne by the members. At least 60 percent, maybe as much as 80 percent, of the costs were intended to be borne by the member, at least as I can recall what was said in 1972. But I do not think there was any anticipation that they expected it to keep going up for future retirees.

Senator WILSON. From your presentation I gather the CBO analysis is that if the House proposals were enacted, the same percentage ratio of costs would be stabilized in the future?

Mr. HALE. Yes. If you enacted the House Armed Services Committee proposals indexing to retired pay, it would tend to stabilize it. I think you would have an even greater chance of stabilizing it if you based on the indexing on basic pay. It would be a little more expensive but it would raise that probability.

I do not want to make your life too easy. There are a lot of assumptions that go into what the percentage is. If they change, for example, how much the member chooses to cover, if that sort of behavior changed, or if, as DOD will point out, we make a major change in the military retirement system, it is possible you will have to revisit this.

But there will be much greater probability of stabilizing the ratio under the HASC proposal, and even a little more if you indexed it to basic pay.

Senator WILSON. What has been the experience with the system in terms of the amount of coverage chosen by the retiree?

Mr. HALE. It averages around 75 percent, and thinking back to my efforts in 1980 on this same issue, I think it was generally similar then. There is a range. Some take the minimum amount, which was a much lower percentage; some take 100. The average, as I say, tends to run around 75 percent.

Senator WILSON. You indicated that for most participants in the SBP the House's proposed two-tier system, 55/35 percent system, would result in a slight increase in the benefits levels, and your chart shows that it is a rather small increase, because most participants have sufficient military service after 1957 to trigger the full 40 percent social security offset.

Are there any groups of members who would be entitled to lower benefits under the House proposal than they would be under current law and, if so, what are these groups and how and why would their entitlement be lower?

Mr. HALE. There are a couple; they are relatively small. Let me leave aside for a moment the save-pay provision of the House, though I will come back to it. Leaving aside the save-pay provision and, if I may, leaving aside the effects of the Thurmond amendment—again I will come back to it if you would like—there are basically two groups, I think.

One would be survivors of senior officer retirees, basically O–6s and above, who cover 100 percent of their retired pay. It is possible that survivors of those retirees would receive slightly less in benefits, and again that is because senior officers have lower social security in relation to their income, so their offset is lower and they are not subject to the 40 percent. Under the HASC plan they will get a little bit less.

DOD says they are about 8 percent of the overall survivor community. That looks about right. Senior officers are 5 percent of the total retirees, so their survivors would be a little higher percentage of the total survivor population.

There would also be some disability and perhaps Reserve retirees, or survivors of those retirees, who could be disadvantaged. It is much harder to tease out exactly who, because it depends on their specific wage history now, particularly for disability survivors who do not have a lot of time in the military but who have perhaps 100-percent disability. They could have very low offsets: under the HASC plan, they could go down to 35 percent. Again, they are likely to be a relatively small group.

There is some vagueness in the law which I think the HASC save-pay provisions are intended to correct. They intend to prevent any disadvantage to those who are already survivors, who are eligible to retire, or who have retired. So any disadvantage would occur only prospectively, to those who have not yet made a decision to join the plan.

There may be some prospective disadvantage for relatively small groups. I need to add that, in the presence of the Thurmond amendment, it is possible that there would be a larger group who could be disadvantaged, because that amendment could cause 10 percent to 30 percent of the people to avoid some or all of the offset.

Senator WILSON. What you are saying is that apart from the Thurmond amendment, apart from the operation of the Thurmond amendment, the two groups who would be affected would be the survivors of senior officers who have not paid much in the way of social security.

Mr. HALE. They have lower social security offsets.

Senator WILSON. Excuse me, they have lower social security offsets.

Mr. HALE. Their survivors are going to face less than the 40-percent deduction. Under the HASC plan, they will get a slight reduction to 35 percent.

Senator WILSON. And the other group is the disabled.

Mr. HALE. Some disabled, not all by any means, and it is hard to tease out exactly which ones. Generally, I think, it would be those with relatively little service and perhaps 100-percent disabilities, so they would have relatively high pensions and not much military service to count toward Social Security.

We have not run a lot of detailed numbers on that group, frankly, but certainly there are some people that could be disadvantaged, and maybe a few survivors of Reserve retirees as well, depending on their wage histories.

Senator WILSON. Anyway, to come up with a number as to what the impact of their situation is on both accrual cost and outlays——

Senator GLENN. Would you yield, Mr. Chairman?

I was going to get into this same area, too, and I would like to break it down, if you are formulating an answer here, in two ways. What would be the cost of grandfathering everyone on active duty who would receive lower benefits from the House bill under current law, and, secondly, what would be the cost of grandfathering everyone who is retirement-eligible? There are two ways you could look at this as to who should rate.

Mr. HALE. We have tried.

Senator GLENN. Do you have those figures?

Mr. HALE. No. We could try to get them for you. Let me say we tried to model the effects of a House Armed Services Committee save pay, as they intended it, and that would again save-pay for all those retirement-eligible, in retirement, and actually survivors. It does not affect the accrual costs. The way we calculate those costs is to assume the members entered the service next year and calculate what their future costs and benefits would be.

So the changes are only prospective. Save-pay will not affect the accrual costs as they are calculated. It does affect the outlays, and we tried to model that in those outlays that we gave you, the grandfathering for retirement-eligible, retirees and survivors.

Grandfathering all those on active duty is not so easy to model, unfortunately. It is a very complex area of the law, but we will try and get together with DOD and see if we can work out something for you.

Senator GLENN. I would like to make that request.

Senator WILSON. All right. We would like to have that.

Mr. HALE. We will give it a go and provide that to your staff.

Senator GLENN. If I might interrupt for 30 additional seconds, I have always felt that I just cannot see us pulling the rug out from under either retirees or those who have made a career decision. I think that is very, very unfair when we do that. We are in effect breaking faith with the people who had faith enough in their Government to sign up in the military, either indicate they are going to have a career or they have served out their time and thought they were going to have certain benefits. Then we start mucking around with this thing here and ruining the retirement benefits they thought they were going to get.

They are dependent on this and they are beyond their normal working years. They cannot adjust like other folks. I think the grandfathering in of those who are at least past the career decision point or those who are already retired is something I look at as almost a sacred trust back and forth. That is the reason I would like to see how much this grandfathering might cost.

Mr. HALE. I think the added cost would be relatively modest because again we are talking—let me leave aside the Thurmond amendment——

Senator GLENN. I am not talking about many people.

Mr. HALE. No, that is right. So I think the added cost would be relatively modest, but we will try to get you a number.

Senator GLENN. Thank you.

Senator WILSON. Mr. Hale, CBO estimates that the House proposals would increase the accrual charge from SBP from approximately $200 million now, or $206 million, I guess it is, to I think you have said, $446 million in fiscal year 1986, and that the spousal concurrence provision would result in approximately $146 million of that increase?

Mr. HALE. Yes.

Senator WILSON. Could you explain in some greater detail how you arrive at that estimated cost for the spousal concurrence provision?

Mr. HALE. Yes; let me say again as I did in the testimony that there is not much data, unfortunately, to base this on. We assumed, and I emphasize that word "assume", that 50 percent of the people who under current law are eligible for survivor benefits but decline it would, under spousal concurrence, take coverage, and moreover that all people would cover more of their pay because, after all, under spousal concurrence the spouse can effectively mandate full coverage.

Under those behavioral assumptions, you get the $146 million estimate that I cite. Let me give you some other numbers to illustrate the range. If you think only one out of four who now decline SBP would change their behavior and accept coverage, the added costs are $73 million. If you think that perhaps only 1 out of 10 would change their behavior, then the added costs are about $30 million.

If costs here, Mr. Chairman, are of great concern, the one suggestion I might offer is you could wait a year. Spousal concurrence is now in effect in the civil service retirement system, and although those are fairly different plans and participation is much higher on the civil service side, after a year we may get some better sense of how spousal concurrence affects retirees' behavior. It may add a little more information on which to base this estimate.

In the absence of such information, as I said in the testimony, you are going to have to view our current numbers as rough approximations.

Senator WILSON. Under the Thurmond amendment that was enacted last year, which will go into effect October 1, the Social Security offset would not apply in those cases in which the Social Security benefit payable to an annuitant was based solely on the work of the annuitant.

Mr. HALE. Right. That is the narrow interpretation.

Senator WILSON. Right. I understand a question has been raised, and you have raised it, as to what the proper interpretation is, the narrow or the broad, and I intend to pursue that with the witness representing the Department of Defense. However, can you restate the estimated costs of that provision under both the narrow and the broad interpretation?

Mr. HALE. I think the clearest way to say it is that the accrual charge in fiscal year 1986, when the Thurmond amendment is in effect, would be about $226 million under the narrow interpretation. Not too many people lose offsets or avoid the offset, so costs are lower. The accrual charge would be about $298 million, I think, under the broad interpretation of the Thurmond amendment.

Let me say a word about how we got those numbers. The Social Security Administration did some studies of couples nearing retirement age in the late 1960s, and they estimated the portion of the benefit that would be based on each members' income. We applied those numbers in making our estimates.

I should note this is a general population that the Social Security Administration used, not a military population, so there is some uncertainty in the estimates. But as least, as opposed to say spousal concurrence, there is some empirical basis for getting a sense of how much the Thurmond amendment will affect offsets.

I might give you one other perspective to help with the numbers. Without the Thurmond amendment at all, accrual costs would be $190 million in 1986. With the narrow interpretation, $226 million. Broad interpretation, $298 million. So that is the range of costs you pay. Once again, it is, small as a percentage of total military retirement cost, but not insignificant in terms of the effects on the accrual costs for survivor benefits.

Senator WILSON. Now let me understand. Under the House proposal, the Thurmond amendment would be repealed without ever going into effect.

Mr. HALE. Right.

Senator WILSON. If the Thurmond amendment were allowed to go into effect along with the rest of the House proposals, would the cost of the Thurmond amendment be in addition to your estimated additional costs?

Mr. HALE. If you save pay for everybody, as Senator Glenn suggested—and I certainly could have no qualms with that—if you said that all those now on active duty would benefit from the Thurmond amendment if they were eligible, yes, it could increase costs. I cannot give you a number offhand. Let us work with Mr. Tucker and Mr. Lyles on that, if we could.

But it could increase the costs if you essentially grandfathered everybody who would have benefitted from the Thurmond amendment. It depends on how much of the offset they avoid, depending on whether the narrow or broad interpretation prevails. The HASC plan would bring them down to 35 percent. If you grandfather or save pay for those people, they would get higher benefits. That would affect at least the outlays.

Senator WILSON. Thank you very much, Mr. Hale.

Senator Glenn?

Senator GLENN. Thank you, Mr. Chairman.

The $300 minimum amount of retired pay which members must cover under the SBP has not been adjusted since that legislation was enacted back in 1972. What would this $300 figure be today if it had been adjusted by the same cost of living adjustments applied to military retired pay since 1972?

Mr. HALE. Our estimates are that it would be about $740 today. There have been substantial increases since 1972 because of inflation, especially during the late 1970's.

Senator GLENN. A very substantial difference.

Mr. HALE. Yes. I might add, if you were to do that, it would have a major effect on the portion of the cost borne by the individual.

Again, I do not have a specific number, but I think we would go from somewhere near, say, 60 percent under the House Armed Services Committee plan down to something like 30 or 40 percent and maybe lower.

Senator GLENN. What would be the Government's cost of a provision indexing this minimum amount back to 1972; do you have any idea?

Mr. HALE. Again, if I could provide that for the record, the cost will be high just because the members will bear much less of the cost. But I cannot give you a number. Let us, if we may, provide that for the record and then work with Mr. Lyles.

Senator GLENN. We would appreciate that.

[The information follows:]

[Memorandum]

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, July 9, 1985.

To: Pat Tucker and Dave Lyles.
From: Neil Singer.
Subject: SBP Testimony Follow-up.

At our testimony last month on proposed revisions to the Survivor Benefit Plan, Senators Wilson and Glenn raised a number of specific questions that we promised to report back on. Here are our responses to the points that I recall being raised at the hearing. If there are other issues of interest to you, please let me know and I will try to develop answers to them as well.

1. *Indexing to the 1972 Base.* If the current $300 contribution base were to be increased by the change in prices between 1972 and 1985, the base amount would increase to approximately $780 in FY 1986. If the new $780 base were not indexed, members entering service in FY 1986 would have their share of costs lowered from 69 percent to 58 percent (for the basic unindexed HASC plan), and the government's FY 1986 (accrual) cost would increase by $86 million over the cost of the basic HASC plan.

If the new $780 base were indexed, the FY 1986 cohort would have its share of SBP costs reduced further, from 58 percent to 34 percent. The government's FY 1986 accrual cost would increase by an additional $176 million. Thus, the total FY 1986 accrual cost of indexing to the 1972 base and maintaining that real contribution level would be $262 million vs. the basic, unindexed plan.

2. *Indexing to Wage Growth.* Relative to a basic two-tiered CPI-indexed plan, indexing to wage growth would increase the FY 1986 accrual cost by $18 million.

Since the cost of indexing to the CPI would be $86 million (as stated in our testimony), the total FY 1986 accrual cost of indexing to wage growth would be $104 million over the cost of the present (unindexed) system. (Our testimony at the hearing estimated the total cost of wage indexing at $100 million.) Wage-indexing rather than CPI-indexing would also lower members' share of the cost of the program by 2 percentage points.

Relative to the complete HASC plan (which includes the optional remarriage coverage and spousal consent provisions), wage indexing would add $22 million (rather than the $18 million for a basic two-tier plan).

3. *55/40 rather than 55/35.* Under a simple two-tier plan (that is, one without optional remarriage coverage and spousal concent provisions), increasing the second-tier benefit to 40 percent would add $53 million to the FY 1986 accrual cost. With the optional remarriage coverage and spousal consent provisions in effect, the additional cost of 55/40 would be $130 million. Members' share of the cost would decline by 6 percentage points.

4. *Save-Pay and Grandfathering.* Such provisions would not alter accrual costs for a cohort entering in FY 1986, but would eventually affect outlays for persons recently retired or now in service. Outlay changes within five years would be negligible, because new retirees would not be likely to have survivors old enough to receive SBP. Moreover, if members were grandfathered under the current system, the indexing provision of the HASC plan would soon make the new system much more attractive than the current one, even if grandfathering provided for reduced Social Security offsets under the Thurmond Amendment.

Senator GLENN. You have been an analyst of this program for a number of years. In your view, what would be the impact of the changes proposed in the House bill on the overall participation in the SBP program? Have you made any assumptions on that?

Mr. HALE. Well, no. As I said before, we do not have much analytic basis for figuring out how much participation would change. The HASC proposal would simplify the plan a lot, and that has got to be an advantage and perhaps will reassure people and cause some increase in participation. Also, it would hold down the portion of costs future retirees bear, and that should help.

But based on history I would not expect a large increase in participation. I say that because in 1980 Congress made substantial changes in this plan which reduced the ratio of costs borne by the member much more than the House Armed Services Committee proposals would, and yet we did not get huge increases in participation. Enlisted participation in 1980 was about 35 percent, and is up to 40 in the latest data that I have. Officer participation was about 55 percent in 1980, and went up to 65 percent in the latest data I have, which is for fiscal year 1983.

So there was some increase, but I would not say it was dramatic. Today we are at a higher level of participation. I think you might see some increase, a few percentage points, but not a dramatic one. When this plan was passed there was hope that 85 percent of members would participate. We never really got near that. Frankly, I do not think you will get very near it with the Armed Services Committee proposals either.

Senator GLENN. One of the purposes, as I understand it, of this legislation would be to help simplify the program so that more people would understand it and perhaps decide to participate.

Mr. HALE. Yes.

Senator GLENN. And with all due respect to everybody that has worked on it, I think we have a ways to go yet.

Mr. HALE. Well, it is a lot better, Senator Glenn, as I hope I have conveyed. You have just this one benefit line here instead of this whole family of lines, but it will not be totally simple; that is true.

Senator GLENN. I came in early this morning to spend about an hour going through the briefing papers on this, and maybe I was a slow starter this morning or something, but I think we have a ways to go before this is simplified enough so the average person in the service will understand it.

Senator WILSON. It was no better late last night, John.

Senator GLENN. That includes the officer ranks as well as the enlisted ranks. When I was still in the Marine Corps I know how we took care of the decisions on this. The paymaster gave you some options on something. I said what is going to benefit Annie—my wife—What is going to benefit her and protect her the most? And he said this one. And I signed it, and that was my understanding of it, and I never went beyond that. I would guess that is the way most people have made those decisions in the service.

I will bet that there is not one out of 5,000 people in the military today that can sit down and go through and explain these things to them, and I would doubt that this "simplification" is going to improve that very much. So I think we still have a ways to go on simplification in this. Maybe we need some comic book presentations of this so that people like me can understand it, a very simplified version.

Mr. HALE. In brief defense of the HASC proposal, under current law you have to go through this whole offset calculation and it is impossible to predict exactly anyway. Under the HASC proposal you will be able to say that what Annie will get if you cover $1,000 a month of your pay is $350 a month—I am sorry, $550 a month up to age 62, and $350 a month after that. There would be inflation adjustments, but those would be the benefits in today's dollars.

And that is all you have to say, at least to know the benefits in today's dollars. That is better than now. It is not perfect, I agree, but better, a lot better, I think, than where we are now.

Senator GLENN. As a student of this whole Survivor Benefit Plan—which you have been for a long time—are there other proposals you think we should consider as part of this while we are making changes?

Mr. HALE. There are a wide range of proposals that have been——

Senator GLENN. Preferably in the simplification area.

Mr. HALE. Yes, Senator Glenn, most of them have not been in the simplification area. I think you have got enough to chew on in general in the House Armed Services Committee proposals, and they also address the portions of the problems that some see in the law that affect the largest number of people.

The one thing I would suggest is that if the House Armed Services Committee does not choose to index the $300 a month to basic pay that you at least seriously consider doing that, rather than indexing to retired pay. Although it would be a little more expensive—but not too much—the main reason I say that is that it will increase the chance you will not have to do all this again. It will stabilize the portion of costs borne by the member, and that does seem in the eyes of many to be a desirable change.

So that is the only other major one. You may get confronted with some of the many adjustments for specific categories of widows, if there are changes made on the House floor. I am going to stay out of those unless you really want to hear about it, because they are terribly complex.

Senator GLENN. We have talked about several pieces of information you are going to get for us now. See if you can dig those out or model them on the computer in some way. I would like to ask our staff members who have gone into this in more detail if there are any other areas of information they want on this?

Mr. HALE. We would be glad to help them later at their request. We appreciate their help. They are experts themselves in this.

Senator GLENN. Thank you.

Senator WILSON. Mr. Hale, thank you. You and your staff have brought more light than was available to me late last night or to Senator Glenn early this morning. We look forward to receiving from you your estimates in response to our requests. Thank you very much.

Mr. HALE. Thank you.

Senator WILSON. Next we will hear from Lt. Gen. Edgar A. Chavarrie, Deputy Assistant Secretary of Defense for Military Personnel and Force Management, representing the Department of Defense. Good morning, General, welcome.

STATEMENT OF LT. GEN. EDGAR A. CHAVARRIE, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MILITARY PERSONNEL AND FORCE MANAGEMENT

General CHAVARRIE. Mr. Chairman and Senator Glenn, thank you very much for allowing us to come and give you our views on the Survivor Benefit Plan and the modifications proposed by the House Armed Services Committee as part of their authorization bill.

The revisions proposed by the HASC would, in simple terms, replace the existing social security offset feature by a two-tier system, improve the cost formula for members retiring in the future, and require the spouse's consent for the retiring member to elect less than the maximum protection. There are other changes, and I think there are inequities, which have been identified. We will discuss them this morning.

Sir, one very important point I would like to make at the outset is that any changes to the military retirement system will necessitate a corresponding reconsideration of the Survivor Benefit Plan. I think Mr. Hale pointed that out.

We consider that very important, of course, because if the retirement system is changed in any considerable way it will affect the retired pay, and that will in fact affect SBP. We really believe you cannot finalize SBP changes until we know what, if any, changes will be made to the retirement pay system.

That consideration aside, the Department generally supports the changes proposed by the House Armed Services Committee. However, the administration does not presently support indexing the low-cost minimum base amount because of budget considerations.

We fully support the spousal consent provision, which is similar to that enacted for the civil service and private sector. The civil service plan, however, attained a participation rate of 90 percent without that feature. Last year, among our retiring non-disabled active duty careerists, only 40 percent of enlisted members and 66 percent of officers participated in the Survivor Benefit Plan. The spousal consent feature will, therefore, potentially impact about 60 percent of the enlisted members and 34 percent of the officers in some way or other.

The Congress may also want to correct an inequity that results when a spouse is entitled to Dependency and Indemnity Compensation, the DIC, a VA benefit and that benefit is offset from SBP on a one-for-one basis.

SBP BACKGROUND

Before getting into the details of the proposal, I think it might be helpful, sir, to review the development of the current plan the way we see it in Defense. The SBP is a valuable estate asset for many members of the military community. It was enacted, as you know, in September 1972. It has been improved several times through the efforts of the Congress, of various military associations, of this and previous administrations, and certainly in this committee.

Secretary Weinberger affirmed the Department's commitment to SBP in a memorandum to all members earlier this year. Since then, we have been reviewing the SBP with a view toward proposing necessary remedial legislation that would remove inequities and make useful improvements at a reasonable cost. We started this about 7 months ago, and with our small staff we figure we will finish our review of SBP about the end of this year.

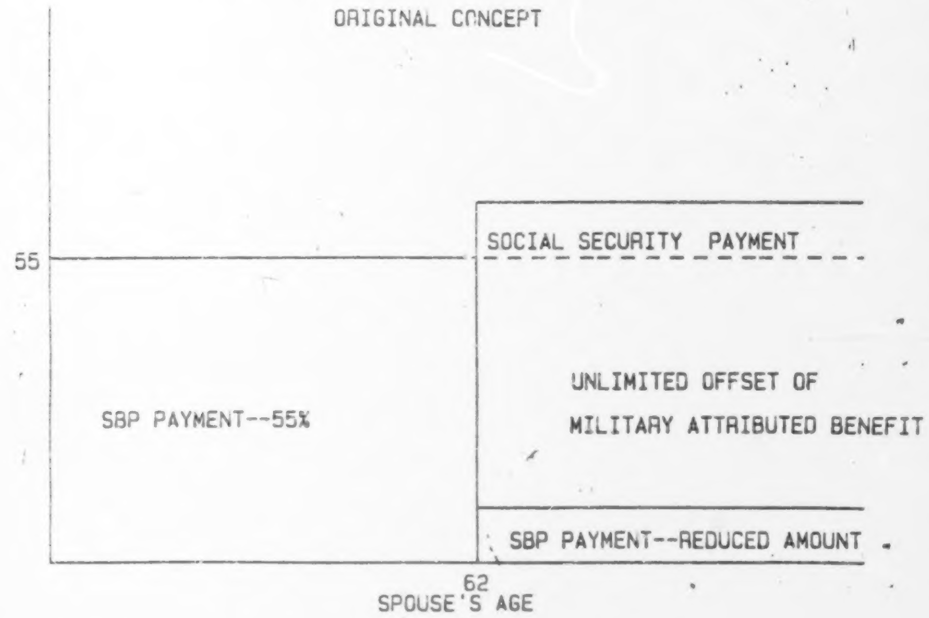
We believe the SBP should serve our members and their survivors well, with the funding of the plan as currently provided by reductions in the retired pay of participating members and by Government contributions. The legislative history of the SBP shows an intent that the Government contribute approximately 40 percent of the benefits. The current plan was modeled, in part, to match the survivor annuity program available to retiring Federal civil servants, but modified to reflect the fact that another system of benefits was available to military members and their survivors—those of the Social Security System.

As with the Civil Service Plan, the SBP was to enable retired members to provide a surviving spouse or child with as much as 55 percent of his or her retired pay. The military system, however, in contrast to the civil service system, was to have a reduction at age 62 to reflect the income protection of social security benefits earned through military service.

The system was to ensure that the surviving spouse would have available between SBP payments and social security payments at least 55 percent of the member's retired pay.

CHART 1

SURVIVOR PAYMENTS AS A PERCENT OF RETIRED PAY



The total of these two payments could exceed the 55-percent level due to other covered earnings, either the member's civilian employment earnings or the spouse's earnings.

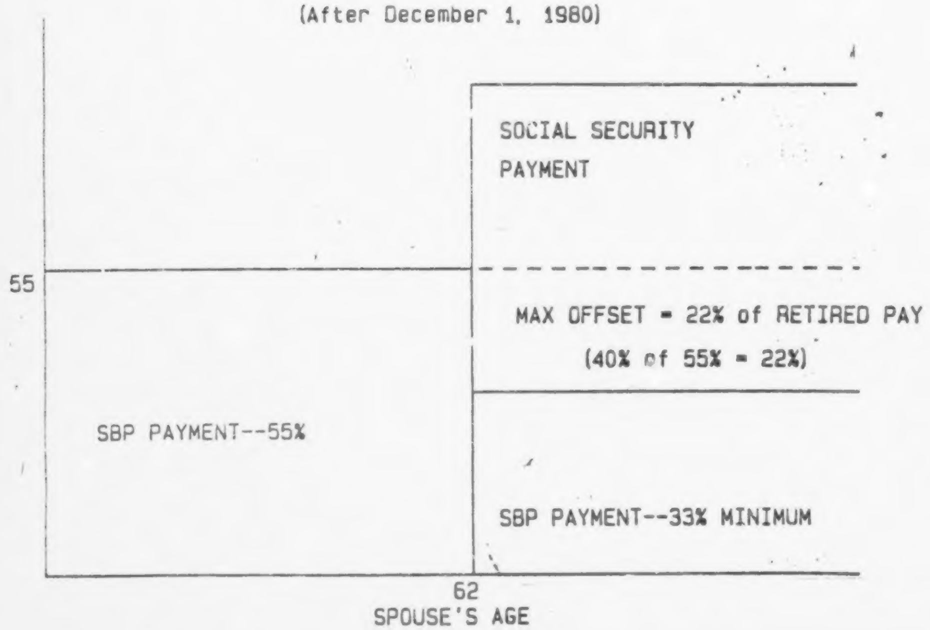
There was no limit to the Social Security offset in the original SBP program; however, a 40-percent maximum offset was provided in 1980 because the rapid growth in Social Security benefits in the 1970's substantially reduced the amount of SBP benefit in relationship to contributions, especially for enlisted members.

The inequity reached such magnitude that some members had their entire SBP benefit eliminated through the Social Security offset feature. With the 40-percent maximum offset to the SBP, survivors are now guaranteed an SBP payment of at least 33 percent of the member's retired pay at age 62 and beyond. This restored a somewhat reasonable relationship between SBP contributions and its benefits. It also allowed a higher combined Social Security plus SBP entitlement than allowed under the unlimited Social Security offset rule.

CHART 2

SURVIVOR PAYMENTS
AS A PERCENT OF RETIRED PAY

(After December 1, 1980)

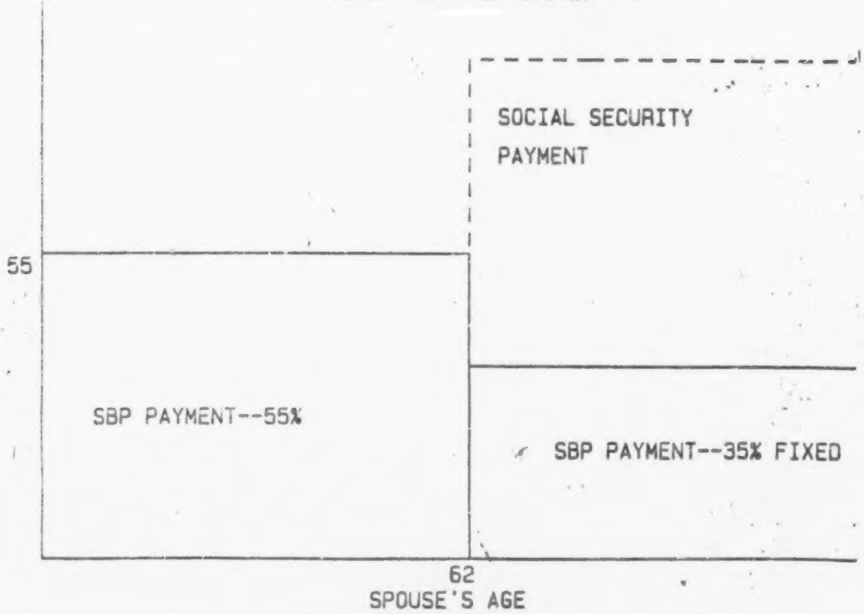


Regarding the current situation, among the members retiring today the 40 percent maximum offset is expected to affect all prospective participants except those in grade O-6 or above who have 26 years of service or more. These exceptions constitute about 8 percent of the current retirement-eligible members.

The result is that the surviving spouses of prospective participants, except for those of senior officers, will have a de facto two-tier system of benefits, paying 55 percent retired pay before 62, and 33 percent after 62. The HASC proposal would therefore represent a modest improvement, as we heard this morning, for widows over age 62 of about 2 percentage points, from about 33 to 35 percent of retired pay.

CHART 3

SURVIVOR PAYMENTS
AS A PERCENT OF RETIRED PAY
HASC TWO-TIER SYSTEM



TWO-TIER SYSTEM

Regarding the two-tier system, the Department appreciates and supports the simplicity of a two-tier system of benefits that is not linked to Social Security. Confusion with the current linkage is believed to be one of the major reasons people turn down SBP participation. Under a two-tier system, the member and the survivor would know with certainty that 55 percent of the member's retired pay would be payable up to age 62 and 35 percent thereafter. They would not have to worry about that at the time of retirement.

Thus, military families could make effective financial plans, knowing exactly what benefits the survivor would derive from the dollars paid to participate. This has not been true previously. Therefore, we support the two-tier system proposed by the HASC as a positive step. However, we are still in the midst of this review that we are doing and believe that further changes may be warranted. If so, the Department may propose additional legislation when our review is complete.

It also should be noted that the offset has been tied to age 62 since the inception of the plan. The Social Security system has been revised since that time to allow a widow to defer receipt of Social Security benefits to age 65, and then receive 100 percent of the deceased spouse's primary insurance amount. Thus, it is not clear why the second tier of benefits under the HASC plan should begin at age 62.

LOW PARTICIPATION RATES

Regarding the low participation rates, this has always been a problem and difficulty. The simplicity of the two-tier system, we think, should help improve participation rates. We are concerned, however, that many spouses may remain unprotected. In fiscal year 1984, while 40 percent of retiring enlisted members and 66 percent of retiring officers elected some form of coverage, full spouse protection was elected by only 18 percent of married enlisted members and 29 percent of married officers retiring.

While current participation rates represent an improvement over the predecessor plan to SBP, the retired serviceman's family protection plan, they fall short of the 80 percent participation that was anticipated when SBP was enacted. Unless current participation rates improve, we can still expect an increase in the population of destitute widows.

PUBLICITY IMPROVEMENT

One cause of nonelection cited by the Fifth QRMC was a lack of appreciation among members for the true value of SBP. In response to this, our staff and those of the services have been working to improve the publicity on SBP, particularly through better education of the retirement counselors, who are the closest we have to an SBP sales force. We are also working in conjunction with the Retired Officers Association to publish their very popular and easily understood SBP brochure as a DOD pamphlet.

Other associations, particularly the Army Mutual Aid, also appreciate the value of SBP and are very helpful in sharing their experiences and ideas. I think some of those people are the best explainers of SBP that there are. So we expect to see some improvement as a result of these efforts but we are also concerned that some features of the program itself help to contribute to low participation rates.

IMPROVING THE COST FORMULA

One of these features is the cost formula. Presently, a retiring member must pay 2.5 percent of the first $300 of retired pay, and 10 percent of any additional amount. A typical E-7 retiring when SBP was enacted in 1972 would have paid only $18.75 for full coverage, or 4.5 percent of his $410 monthly retired pay. Today, a retiring E-7 pays $71.60, or 7.6 percent of his $941 retired pay, which is an increase of about 70 percent. His annual retired pay is slightly more than $11,000, right about the poverty level for a family of four. The retired pay levels of enlisted members leave little discretionary income, particularly in view of the economic uncertainties faced by a member at the time of retirement. Moreover, without a change in the cost formula, the same E-7 retiring in the year 2000 will be paying 9 percent of his retired pay for full SBP protection.

The cost percentage is gradually approaching the 10 percent level because the cost formula charges you 10 percent of any retired pay covered in excess of $300. So, as pay rates have increased, the $300 low cost portion constitutes a smaller and smaller fraction of retired pay.

The House Armed Services Committee proposal would index the $300 low cost portion with inflation, increasing it by the same percent as the CPI increase in retired pay. This provision, which is similar to the proposal of the Fifth QRMC to index this low cost minimum base amount to increases in rates of basic pay, would provide a benefit increase. The administration believes that the impact of such a change, the $300 change, in the survivor benefit plan should be further examined in terms of its impact on other federal retirement systems.

The HASC proposal would help keep future participants from paying a higher percentage of their retired pay for SBP participation than paid by a similar retired member today.

THE ATTRACTIVENESS OF MINIMUM COVERAGE

Our analysis has shown that an election of the minimum coverage is attractive for all typical retirees.

Under the current system, a cost of $7.50 a month produces a benefit of $165 prior to age 62, reduced to a minimum of $99 after 62. Based on the economic assumptions used by the DOD Board of Actuaries in their valuation of the military retirement fund, the average cost paid by typical members would cover 20 to 25 percent of the benefit payments for minimum coverage.

Consequently, we see no economic reason why any married member would not elect at least the minimum protection. However, as I have indicated, the relative value of minimum protection has dwindled to 44 percent of its original worth.

COVERAGE ABOVE THE MINIMUM

The attraction of more than minimum coverage is a different matter. Our analysis shows that typical officers with less than 26 years of service can expect, as a group, that the amounts they pay would fund more than 100 percent of the benefits their families will receive, requiring no Government cost-sharing. This makes the plan a bit less attractive. This is primarily due to the longer life expectancies of these officers versus the life expectancies of enlisted members, which turns out to be about 3.5 years.

Whether officer or enlisted, however, the attractiveness of SBP increases steadily with age. This is why younger members participate at lower levels and older members participate at greater levels. It also shows why DOD has a modest 55 percent participation, while the civil service plan has nearly 90 percent participation. The civil service plan has the same cost formula, but no Social Security offset, and they typically join about age 62, whereas the typical military retiree joins at an earlier age and therefore pays for a longer period of time.

The military member retiring around age 42 or 45 clearly contributes more than the typical civilian retiree, but the expected benefits are substantially less due to the offset. Thus, the Government's share of SBP costs is significantly less than the Government's share of civil service survivor annuity costs.

The Fifth QRMC found that in the civil service plan the cost-sharing ratio was approximately 35-percent member/65 percent Government, while in the military plan it was 72-percent member and 28-percent Government. The legislative history shows that the cost-sharing ratios were to be objectively the same, 60-percent member and 40-percent Government. The HASC plan is expected to trend toward achieving this cost-sharing ratio, but would not achieve the objective of a comparable cost-sharing ratio as that of the civil service plan.

RESERVISTS AND DISABLED MEMBERS

Two groups of participants present special considerations, of course, and you talked about those a little earlier—the reservist and the disabled retired member. The DOD believes that the effect of the HASC proposal on these members requires further review, and we would like to participate with Mr. Lyles and Mr. Tucker and the CBO to get the numbers straight, because it is not only complicated, but just to gather the data before you begin making assumptions is a difficult task.

Should any problems be identified with respect to these members, we request the opportunity to propose further legislation.

WORKING SPOUSES

With regard to working spouses, the Congress included a provision in last year's act, as you know, that beginning with October 1985 annuity payments it will exempt from Social Security offset provision those spouses whose Social Security is based on their own earnings record. The provision was apparently based on the argument that working spouses were being denied an earned benefit.

However, entitlement to Social Security is independent of entitlement to SBP. Survivors receive no more and no less from Social Security as a result of SBP participation. The HASC proposal would also make SBP independent of Social Security System and thus obviate the provision from last year's authorization act, which would have become effective in October.

SPOUSAL CONSENT

The spousal consent feature in the HASC proposal is consistent with changes recently enacted for the civil service retirement system and the private sector. As I mentioned earlier, we believe this is an appropriate safeguard for the spouse, even though there may be some concern expressed by some members, since a large percentage of them elect less than full spouse protection and will therefore be affected.

MISCELLANEOUS PROVISIONS

The other HASC-proposed changes are all positive, would remove inequities, and we support those proposals. I will not go through them since I think they are clear and we support them.

The Congress may also consider, sir, correcting the inequity which exists when the surviving spouse is eligible for DIC, the VA benefit which is offset from the SBP. The DIC is not payable in the month of death but SBP is; however, the Comptroller General has ruled that SBP must still be offset in the month of death. We believe it is appropriate to make SBP payable without this offset in the month of death.

CONCLUSION

To conclude, the Department supports the initiatives proposed by the HASC, with the exception of indexing the low cost minimum, this exception due to budget considerations. The proposed changes are a major step toward simplification and understandability of SBP. We believe they will aid in our efforts to increase participation rates, particularly among retired enlisted members.

However, we have not completed our review, which has as its goal how best to support our members and their families. Therefore, we would intend to continue to complete our current comprehensive review of SBP in the Department to determine whether or not additional changes may be appropriate. We expect to have the work completed by the end of the year.

We will also be particularly sensitive to any changes in the military retirement system which may have a substantial impact on SBP benefits, since any reduction in retired pay levels would cause a reduction in survivor annuities as well. The final position on SBP is clearly dependent upon the final position on the military retirement system itself.

The SBP is an important element of military compensation directed toward the welfare of families, especially spouses, following the member's attainment of career length military service. The beneficiaries of SBP are special people. They have had to accommodate the demands of the unique nature of military service and stand with our members in serving their country. We are indebted to the survivors of military members and believe it is our obligation to provide them with the kind of estate protection that is worthy of these sacrifices. The recommendations that we have provided today we think, sir, move in that direction.

That concludes my statement and I would be happy to respond, Senator Wilson, to your questions.

Senator WILSON. Thank you very much, General.

General Chavarrie, you indicate that the House proposal would result in a slight improvement for the survivors of most personnel because most now receive only 33 percent of retired pay at age 62 as a result of the Social Security offset. However, you point out that those in the O-6 and above with more than 26 years of service class would not benefit from the House's provisions.

General CHAVARRIE. Right.

Senator WILSON. Can you tell us, sir, what the number is of those personnel who are in that class in today's force? That is, how many people in today's force are in grade O-6 or above with more than 26 years service, and what percentage roughly does that group comprise of the present force?

General CHAVARRIE. Yes, sir. We calculate approximately 8,000 that are in the category of grade O-6 and above with more than 26 years of service. They constitute four-tenths of one percent of the force, the active force, but they are about 8 percent of those who are retirement-eligible. So they are small numbers in an absolute sense in the total force, but of the percent of retired-eligibles 8.3 is the actual number.

Senator WILSON. Thank you.

You also touched on the issue of the base amount being indexed. Some have also suggested that the base amount should be raised to somewhere in the neighborhood of $680, although I noted a different figure from Mr. Hale, somewhere like $740.

General CHAVARRIE. I think we calculated the $680.

Senator WILSON. So as to restore the original relationship of premium cost to total retired pay. I have two questions on this.

First, if the base amount were raised to—the figure you used was $680—a figure that would restore that original relationship, what would be the increased cost to the Government in fiscal year 1986?

General CHAVARRIE. About $95 million in 1986 in accrual costs.

Senator WILSON. Second, while increasing the base amount to restore the original relationship of cost to retired pay, the premium cost, what would be the effect of such a change on the original concept that members bear 60 percent of the cost of the program? That is, if the base amount were increased along with enacting the other House provisions what would be the Government/member cost-sharing ratio?

General CHAVARRIE. I think the cost-share for the member would drop about three points, 3 percentage points, and the Government, of course, would rise the same amount—3 percent for the member.

Senator WILSON. What would that work out to be in terms of the total percentage?

General CHAVARRIE. It would be 3 percent down from the 60, so it would be 57 percent for the member and be 43 percent for the Government.

Senator WILSON. There seems to be some disagreement with those from the Congressional Budget Office, so I think you will want to get together with them.

General CHAVARRIE. I think there is, and it starts from our $680 number.

Senator WILSON. General Chavarrie, the Department supports the spousal concurrence provision of the House bill. At the same time, you support the option to not resume coverage in the case of remarriage after retirement. Correct?

General CHAVARRIE. Correct.

Senator WILSON. Do you concur that one of the reasons most often cited for requiring spousal concurrence is that the spouse has assisted the member throughout the member's military career?

General CHAVARRIE. Yes, sir. I think that is really true.

Senator WILSON. What you are saying is that the spouse should have some voice in ensuring that the benefits of that career are available for the spouse's support in the event of the member's death. Do you believe that a spouse who marries a member after retirement and who did not participate with the member during any of the member's career should be permitted to require that the member forfeit part of the member's retired pay to provide an annuity for that surviving spouse who did not participate in his military career?

General CHAVARRIE. That is a very tough question, Senator Wilson. I think if you said the law says that the spouse, and I guess the law does not define it any more than the current spouse, then it has to be that spouse, even if you have been married a week and a half. If that is the law, then the spouse would have, in effect, a veto power.

Senator **Wilson**. That is the law. We agree. Now the question is should it be?

General **Chavarrie**. Should it be?

Senator **Wilson**. Yes, sir.

General **Chavarrie**. I can answer personally. I believe the relationship between a husband and wife and their income and how they are going to live is a personal matter. And so I think Federal legislation which intrudes unduly on domestic relations should be approached with caution. That is a very personal view.

I cannot give you a position from the department's point of view. However if it is the law, we must comply. It is tough to make such judgments.

Senator **Wilson**. It is tough for us, too.

General **Chavarrie**. It is tough for all of us to make a judgment. I guess I have a personal bias in that I do not believe in a lot of intrusion in the private lives of citizens, and I think this is such a personal thing between a husband and wife and their particular financial situation, that it is imprudent to legislate actions they should take.

That is not a very good answer, I know. I am just philosophically against intrusion into the private lives of individuals. That is a personal view.

Senator **Wilson**. It is a relevant question and you are accurate in your description of what the law is. I wonder does anybody have an answer to this. Perhaps Mrs. Locke will when she comes up. Do you at the Department or does CBO have any figures on what the experience has been in divorce cases in terms of the disposition of the prospective value as a survivor?

In other words, when the property settlement is entered into by divorcing spouses what has the experience been in terms of treating the value, the survivorship rights?

General **Chavarrie**. I think, Senator, last year when the subject came up we asked ourselves the question can we really gather any data on people that are retired and divorced.

It is data which is difficult to get since each State treats domestic law differently.

Senator **Wilson**. I know what the law is, at least in most States—maybe it is different in community property States. The court will not compel, cannot compel, the military member to make the election. If he elects coverage or has elected coverage and agrees that it is that spouse who is to receive the survivorship benefit at the time of the divorce before he has remarried, I think that can become binding on him as an obligation as a part of a property settlement.

Senator **Wilson**. I am advised that under the HASC version prior election governs, that once he has given it away to the former spouse, now divorced, it is not available and cannot be mandated by the spouse to whom he remarries, which seems to me is proper.

General **Chavarrie**. Yes, sir, that makes sense. My staff says that is the same understanding as Mr. Tucker.

After my comments, I must make it clear, however, that the administration supports the spousal clause in the House Armed Services Committee bill.

Senator WILSON. You have made that clear.

Well, it is an interesting question and becomes an even more interesting question when you consider the situations that can arise. For example, what happens when we are talking about the right of a spouse who married the member only a year or two before the member retired.

General CHAVARRIE. Sir, that would obviate the basis upon which the spouse has the original entitlement, i.e., long years of service with her husband. That is what makes it so tough. It is such an individual personal thing.

Senator WILSON. Soldiering used to be a lot simpler, didn't it?

General CHAVARRIE. Flying airplanes is a lot simpler. [Laughter.]

Senator WILSON. Just think of all the divorce lawyers that have tried to escape to Congress to get away from this kind of thing.

General, the House proposal includes repeal of the so-called Thurmond amendment dealing with the Social Security offset. Does the Department support repeal of the Thurmond amendment as part of the entire package recommended by the House?

General CHAVARRIE. Yes, sir. I think that the Department does. The amendment, of course has not affected anybody yet. It will only take effect in October of this year. I think we have to ensure that the people who retired last year and made certain plans based upon this coming into effect in October 1985, are not hurt in any way.

We have been looking at this very carefully trying to get the data to see how many people there are, and who they might be. We think that it would be useful this is another case where we think it would be useful—if we could get together with the CBO, Mr. Lyles and Mr. Tucker to find out how many of these people there are, who they are, the kind of decisions they have made.

It is tough to get accurate data on this. It is a good idea or a bad idea depending upon where you sit but, we do not have a good clean set of figures. I think this needs to be looked into before we make any definitive statement on yes or no in those terms, and we would like to get together with people that are interested in this and work on it.

I think we can sort it out and be a little more confident of our data, which we are not right now.

Senator WILSON. I do not disagree, but we are placed in the position of having to go to conference with the House in a couple weeks, so we really do not have the leisure for the kind of careful and objective pursuit of the facts that you are talking about.

We are going to have to come to some agreement with them.

General CHAVARRIE. Well, it will not be scholarly, I am sure, because it will be very quick, but I think it will be better.

Senator WILSON. We would not want to upset the traditions of government work anyway.

General CHAVARRIE. Yes, sir. [Laughter.]

I am thinking of a matter of a few days, Senator Wilson. I think we can get a reasonable handle on it in a few days. You would want to be sure that the people who have made these decisions, and were counting on it, are not facing a break in a contract because they have been counting on this happening in October of this year. I think we can do it in time for your conference.

Senator **Wilson**. Would you also explain the questions that have been raised in the prior testimony from the CBO with regard to the broad and narrow interpretations of the Thurmond amendment?

General **Chavarrie**. I think of course the two interpretations are also difficult to try to sort out. As Mr. Hale said, it is complicated. The House Armed Services in its report is also unclear as to the interpretation. I agree with Mr. Hale; one is more costly than the other. It depends on what the powers that be decide how to interpret the Thurmond amendment.

I am not sure that we can say right off which is the best. One is more costly and one is not. I think maybe the burden has to be on the House Armed Services Committee to better explain legislative intent. I think at the same time we do this look-see in the next 2 or 3 days, maybe we can clarify a bit more on the broad or the narrow interpretation—which is most fair for the member.

Senator **Wilson**. Would you concur with the statement that if the Thurmond amendment were repealed before its effective date on October 1 no person would be actually harmed by that repeal since no benefit is available until after that date?

General **Chavarrie**. I think I would say that, but with a footnote that certain people who retired last year, did it on the basis that this would be effective in October this year. There is a group of people in there, a 1-year group of people, who made decisions based upon the effectiveness of this in October. Therefore, I think we would be breaking faith with them, because in good faith, they said I am going to take it or I am not, or I am going to do this on the basis of this kind of an offset.

This is all part of what I think we can look at. But I think that I would say that we cannot break faith with people who made a determination on the basis of its enactment this year.

Senator **Wilson**. Finally, General Chavarrie, in the prepared statements of the representatives of the military associations it is recommended that the House-proposed plan be changed to provide benefits equal to 40 percent of retired pay at age 62 rather than 35 percent. Would the Department of Defense support such a change in the House plan and, if so, what would be the additional cost to the Government?

General **Chavarrie**. The administration supports the 35 percent on budgetary considerations. We have calculated the cost of going to 40 and our 1986 figures are about $100 million.

Senator **Wilson**. All right, sir. Thank you.

Senator Glenn?

Senator **Glenn**. Thank you, Mr. Chairman.

General, you heard my comments before about grandfathering in some of the people to avoid this O–6 and up reduction. Now maybe it is unfair to ask a three-star sitting here what his opinion is of this. You might be charged with a little conflict of interest there, but I think you can give us a straightforward answer on this.

Do you have any figures or estimates of what the cost would be of grandfathering everyone on active duty who would receive lower benefits from the House bill or everyone who is retirement-eligible today? Do you have any comments on those two things?

General CHAVARRIE. Mr. Hale's response is correct that we do not have a precise number now as to what that might be. He estimated that it might be modest. I think it probably would be modest, simply because there are not very many people involved. On that basis, I think that the judgment could be to go ahead and do it because there are not very many and the costs will not be very high.

But our position is that we do not want any increased costs, and so the administration supports the way it is, without grandfathering. I think once we look at the numbers that Mr. Hale and the CBO come up with, we can have a go at that in the executive branch, and find out what the numbers are, and if they are reasonable. I am sure that we will take a reasonable look at it.

Senator GLENN. I do not want to create any big budget bombshells either, but I would think that this would be a fairly small number. In the interest of dealing very fairly with all our people, I think it is only fair that we do that. My only question is whether you do it for everyone currently in the service now or whether you do it for retirement-eligible as a fallback position.

I would like to have the estimates of Mr. Hale. He said he would work on them.

General CHAVARRIE. I think probably you are right. If you look at equity, it is more equitable to look at the currently eligible—that is, the people that have attained 20. There is some inequity in not taking care of everybody that has come in.

Senator GLENN. That is true, and I can make the case for both directions. I can say, people coming in the service sign up thinking they are going to have certain benefits, certain things are going to accrue to them, and this is one of those things. Now I grant you also that the average person signing up in the service has not gone into this survivor benefit plan probably as deeply as he should in the first year or two of service.

General CHAVARRIE. Yes, sir.

Senator GLENN. And understandably so. But nevertheless if you are putting together a package that people are depending on, then you do not break faith with your folks. That is just so fundamental that I keep stressing that and have said it before in hearings here and will say it again, undoubtedly.

General, back in 1972 when this plan was put into effect, an 80 to 85 percent participation rate was projected. The overall participation rate is approximately 52 percent, and only 44 percent for enlisted personnel. The first question would be, do you consider the Survivor Benefit Program an attractive program and, if so, why is the participation so low?

General CHAVARRIE. Yes, sir. I think the answer to the first question is that it is a good benefit. To get the equivalent kind of insurance, term insurance, for example, for the average enlisted man, he would have to have about $200,000 or $300,000 worth of term insurance, and for an officer about $400,000 to get the same kind of annuity. So there is no question about it. It is a very good plan.

Why participation is not what it should be, since it is a good plan, I guess is what you discussed earlier. I think it is so complicated, and I must say your characterization of how you did it is the way I would do it, and I dare say most people would treat it that way because it is too complicated. We tried very hard to make it more simple.

I think replacing the Social Security offset, with the two-tier system, is going to make it simpler. I hope that those two things will enforce the perception of the fact that the plan is not that complicated any more because it is not hooked up with the Social Security. It would be a two-tier system. I just cannot help but believe it will be better perceived.

Senator GLENN. Well, I do not know that I share your optimism this morning on that. I think it is still a complex enough system that the average person having to make a decision on this is not going to understand the whole thing. They are probably going to take somebody else's advice and sign the paper that is pointed to at the time, because it is still a rather complex system, even with these socalled simplifications.

General CHAVARRIE. I think one of the things, sir, is something we found in surveys. The Air Force did a survey of why people did not participate, and they said. No. 1, it is too complicated. Another, we do not like the Social Security offset because we have been paying into Social Security. Another, once you enroll, you are there for the rest of your life. That does not mean that we support not staying for the rest of your life, nevertheless, these are the perceptions and these are the reasons that people give why they did not participate.

Senator GLENN. Let me expand on that just a little bit because the decision is irrevocable once the decision has been made. For enlisted members, in particular, that decision to participate can represent a very significant reduction in their overall retired pay.

General CHAVARRIE. Certainly.

Senator GLENN. They might be understandably reluctant to make an irrevocable commitment at the time of their retirement without even knowing at that point what their career opportunities are going to be outside the military. Many have reached retirement age and they are still looking forward to a job outside. They do not know quite what those career opportunities are going to be, what the pay would be, how this decision is going to fit in with their retirement pay, and what their spouse's situation will be. Is she going to work or not work, or is he going to work or not work?

There are all sorts of permutations to this thing that make it difficult to make such an irrevocable decision. Have you considered giving the military members a longer period of time in which to make their decision on whether or not to participate? Do you have any comment on the implications in terms of participation in the program and of the total costs of putting in a decision period rather than a cutoff date?

General CHAVARRIE. I think it is tough to forecast human behavior, of course, and your accurate characterization of all of these questions in the member's mind, particularly enlisted members. The average enlisted man's retirement pay is not very high, and you take a whack out of it. Not being able to predict human behavior, I believe it is a reasoned judgment that if you did give a person some period of time so he could stabilize his life after he retired, it would be beneficial.

I think if you gave a member a bit of time to think about these things, you would probably find increased participation. It is tough to forecast what it might be.

Senator Glenn. What period of time would you suggest, 1 year, 2 years, 3, 5? What would be a reasonable period?

General Chavarrie. What might be a good idea, Senator Glenn, is to ask some of the representatives of the retired community because they have a better feel. Not having been through this I probably would not be the person to answer it, but I think your gut feel is the same as mine.

I would say perhaps a year, perhaps two, but if you wait too long, then you start worrying about costs and so there is a cost implication. I do believe if you gave a member a little bit longer time that participation would go up.

Senator Glenn. Mr. Hale, I know that you are not on the stand at the moment here, but do you have any comment on that? Do you think if we extended that period of decision out it would help participation in the program?

Senator Wilson. Let me interject and tag on to Senator Glenn's question. I would be interested in your response to this question and also to another option, which would be to continue requiring the decision to be made at the time of retirement, but perhaps within a 2-year period allow for a decision to withdraw.

Mr. Hale. Shall I come up here?

Senator Wilson. You have to come up here if we are going to get it on the tape.

Mr. Hale. I think there is a chance that you would get some increased participation, but I think I would stick to my earlier judgment that you will not get dramatic increases. And let me indicate why.

We evaluate all these programs in the cost-sharing ratio based on essentially the discount rates, if you will, that the DOD uses to evaluate the retirement system. Those are pegged to long-term Government bonds and they are reasonable for estimating the Government's costs. We know, though, that individuals value money now rather than money later at a higher rate—3, 4, 5 percent; it is hard to say exactly what. It is higher than the rate.

So if we evaluated these programs from the individual's standpoint, they are probably bearing more of the cost, and particularly if you are a 40-year-old enlisted retiree I think that intuitively you would probably say, as you have indicated, Senator Glenn, it is a long time to make an irrevocable decision to reduce your retirement pay.

So I suspect that even if we do all we can, we will not get 80 to 85 participation. That, after all, is very close to the total number who would be eligible. Some of them are not married and so would not be generally eligible for most types of coverage.

Senator Wilson. That was probably an ambitious goal from the outset.

Mr. Hale. Yes, the Civil Service Plan has very high participation, but they are much older when they retire, and therefore they do not have nearly as many years to contribute and they are much more certain of their situation. I do not think you are ever going to get to that, as hard as you try, unless, of course, you go to a drastic reduction in the portion of the cost borne by the member. That, of course, is going to substantially increase the cost to the Government.

I do not want to put down the idea of giving more time to decide. I think equity might dictate that, and it might improve participation some, but I would not expect dramatic improvements.

Senator **Glenn**. General, just one other question. Here in your statement you suggest it might be more appropriate for the second tier of a two-tier system to begin at age 65 instead of 62. Would you comment further on that. What would be the Government's cost of such a change and why would you propose it?

General **Chavarrie**. Well, we do not propose it. It was a kind of footnote in the statement.

Senator **Glenn**. It is an interesting throwaway, though.

General **Chavarrie**. It is an interesting throwaway. Maybe the second part is better than the first part. Maybe it should be a throwaway and not interesting.

Senator **Glenn**. I understood there was a little difference between you and OMB on that particular proposal.

General **Chavarrie**. Yes, sir. As you know, the original Social Security benefit was 62, and everything has been 62 just because that is the way it has always been. Now everybody is working longer. I see the Supreme Court the other day said you had to show cause to fire someone at the age of 70. The Social Security 100 percent benefit for survivors is at age 65.

We thought to raise the age to 65 could be considered. The throwaway is better than the interesting. [Laughter.]

Senator **Glenn**. Well, we may want to come back and get some more information on that.

Senator **Wilson**. I would say it is a pretty good idea.

General **Chavarrie**. I may deny I ever——

Senator **Glenn**. You do not want the credit for that one, huh?

General **Chavarrie**. Sir, I am not sure.

Senator **Glenn**. We might want to talk a little bit further about that. I will not pursue it here this morning, but it is something we might want to get into later on.

Thank you, Mr. Chairman.

Senator **Wilson**. You may want to revise that and suggest that it be effective at such time as the benefit is payable.

General **Chavarrie**. Oh, I see.

Senator **Wilson**. Thank you very much, General. I very much appreciate your testimony.

General **Chavarrie**. Thank you, Mr. Chairman, Senator Glenn.

Senator **Wilson**. Before inviting the panel of the witnesses representing the interested military associations forward, let me announce that a number of other organizations have expressed a desire to submit statements for the record. We will, of course, be delighted to accommodate these requests. In order to do so the record will remain open until the close of business on Wednesday, June 26, for the receipt of any written statements.

Now I would invite to the witness table the witnesses representing the military associations, Col. Paul Arcari, Deputy Director for

Legislative Affairs for the Retired Officers Association; Rosemary A. Locke, the Chairman of the Survivor Benefit Plan Study of the National Military Family Association and Sgt. Maj. C. A. Mack McKinney, Vice President for Government Affairs of the Non-Commissioned Officers Association.

Welcome, ladies and gentlemen. We are grateful for your time and effort and we eagerly await your testimony. We will begin with Colonel Arcari.

STATEMENT OF COL. PAUL W. ARCARI, USAF, RETIRED, DEPUTY DIRECTOR, LEGISLATIVE AFFAIRS, THE RETIRED OFFICERS ASSOCIATION

Colonel Arcari. Thank you, Mr. Chairman, Senator Glenn. I am honored to be here before you today to present our views on the Survivor Benefit Plan. I have a written statement I would like to have included in the record and then make a brief verbal summary of my statement.

I am going to skip over the background of the Survivor Benefit Plan. I think it has been covered in great detail by Mr. Hale and General Chavarrie.

Senator Wilson. Colonel, let me ask that you pull the microphone a little nearer to you. Thank you.

Colonel Arcari. We strongly endorse the highly innovative and enlightened two-tiered concept embodied in the House plan, the HASC plan, and the concurrent elimination of the social security offset. The latter feature of the current law has been the source of considerable confusion and frustration on the part of our members, and its elimination should greatly improve participation.

The HASC proposal would eliminate the Social Security offset and establish a two-tier system in which the survivor would receive 55 percent of the retired pay base until age 62, after which it would be reduced to 35 percent in recognition of the receipt of Social Security.

In order not to disadvantage current survivors, the HASC plan proposes a save pay provision to ensure that such individuals will receive guaranteed benefit levels no lower than they would have received under the plan as it existed before the date of enactment. All future retirees would be covered by the two-tier plan.

While we strongly support the concept, this grandfathering feature of the HASC proposal has two significant shortcomings. First, while the HASC report suggests that the save pay proposal would guarantee benefit levels no lower than survivors would have received under the plan as it existed before the date of enactment, the statutory language does not achieve that objective.

The savings provision is static and only guarantees the member or survivor no less than the annuity calculated on the date of enactment; it does not guarantee them the initial annuity level adjusted by subsequent increases in retired pay, which is what survivors would be entitled to under the current plan. The HASC staff is apparently aware of this deficiency and intends to make the necessary technical changes to have the statutory language conform with the report language.

Second, of great concern to us, the HASC does not extend the save pay provision to survivors who earn Social Security in their own right and would be exempt from the Social Security offset under the law enacted in 1984, which is scheduled to be effective for survivor benefit plan payments after September 30, 1985. The HASC would repeal this provision. Doing so would result in a significant loss in benefits for the thousands of survivors and potential beneficiaries who, though the extensive publicity surrounding the law, were essentially guaranteed no offset if they met the earnings criteria.

Conservative estimates by the Congressional Budget Office indicate that approximately 10 percent of current SBP survivors and beneficiaries would be adversely affected by the repeal of this important provision. Applying this estimate to The Retired Officers Association reveals that about 34,000 of our members could be affected, including more than 4,200 survivors.

To eliminate this potential inequity and what we believe is a breach of faith, we strongly recommend that the save pay provision be modified to grandfather all survivors, retirees and retirement-eligible members under the provisions of the laws already enacted, including the law enacted last year.

We are also concerned that setting the second tier at 35 percent of the base amount would detract from rather than enhance the plan. In addition to the spouses whose Social Security is based on their own earnings record, three other categories of future participants could be disadvantaged by the proposal. Two of these have been covered by General Chavarrie and Mr. Hale.

Survivors of service members who retired on disability currently have a minimal offset; they would be affected. Spouses whose current earnings exceed the Social Security earnings limitation currently do not have an offset until they stop working. They would be adversely affected. And, finally, the majority of reservists have a minimal offset and they could be disadvantaged under the HASC plan.

Given these considerations, we do not believe a 35 percent second tier is an appropriate tradeoff for the protection current law would provide future retirement-eligible personnel. It is our assessment that voluntary participation will decrease unless some adjustments are made to make the new system clearly superior to the existing one.

The second tier set at 40 percent we believe would accomplish that objective. It would significantly reduce the offset to what equates to about 27 percent across the board. It establishes a positive cost relationship between the maximum benefit for all grades and years of service combinations. It lessens the impact on future retirement-eligibles who would be disadvantaged by the HASC plan, namely the working spouses and those who have no offset because their earnings exceed the Social Security limitation.

It tips the scales in a positive way for reservists, which is important, given the increased reliance being placed on the Reserve components. It reduces the aggregate cost share to 56 percent for the member and 44 percent for the Government. Use of an aggregate cost-sharing percentage, however, is somewhat misleading. The cost-sharing for the majority of enlisted members would still range between 57 and 59 percent, and for officers from 66 to 83 percent.

The reason for this phenomenon is that retirees who elect the maximum coverage subsidize those who elect the minimum coverage, subsidize former spouses, and subsidize those who die on active duty after becoming retirement-eligible.

And, finally, that 40-percent second-tier would help ameliorate the effects of high three averaging for future survivors as well as whatever retirement changes occur as a result of ongoing discussions between the Senate and House on retired pay.

As a final point, we think the adoption of 55/40 vis-a-vis 55/35 would enable the vast majority of the military associations to become advocates of the SBP. Therefore, we strongly recommend this modification of the HASC proposal.

We do not support the HASC provision which would require spousal consent before a member could elect not to participate in the SBP. We believe this swings the pendulum too far in the opposite direction. We consider it to be particularly unfair to confer 51 percent of the voting rights in the member's retired pay to the member's spouse. Requiring spousal consent as a precondition to non-election redefines the SBP as a spousal entitlement and removes the SBP election decision from the hands of the member who has earned the retired pay through a career in uniform.

Although a remote possibility, to cite an extreme example, the member could have served on active duty 30 years, been married only 1 year, and yet under the provisions of the bill the spouse could exercise veto power over the member's SBP decision. If a compromise is necessary, we would not object if spousal consent where limited to marriages that lasted for 20 years or more, or if it were applied to the minimum base only.

Alternatively, in the case of a total impasse between the member and spouse, it would not be unreasonable to split the difference.

The HASC proposal makes several other important and necessary improvements in the SBP which we strongly support. I would like to briefly touch on two of these. The first is that it increases the $300 minimum base at the same time and by the same percent as the retired cost-of-living-adjustment (COLA). The purpose of this change is to ensure that the 60/40 member/Government cost-sharing ratio, which had eroded to 73/27 by 1984, will not erode further. It is an important change and we do strongly support it.

The second is of a technical nature. The House proposal covers survivors of reservists who died after enactment of the Reserve component SBP in 1978 and during the 90-day notification period as well as reservists who die during the 90-day notification period in the future. To preclude inadvertently denying survivor benefits due to administrative delays in the notification process, we recommend that the coverage begin with the date of eligibility for retirement pay rather than the date of notification.

The final point, Mr. Chairman, a factor frequently overlooked is the compelling influence the COLA guarantee had on members' decisions to elect to participate in the Survivor Benefit Plan. If it were not for the inflation protection built into the SBP, a feature life insurance companies are unable to match, numerous members would have opted for life insurance as the more desirable and preferable form of survivor protection. The importance of inflation protection was acknowledged in 1982 when retired pay was capped for a 3-year period in the Omnibus Budget Reconciliation Act, but the SBP was excluded from the cap.

In this regard, a little known fact is that when the May 1, 1984, COLA was delayed until December 1, 1984, the lifetime value of the SBP annuity was also inadvertently reduced by up to 3 percent. Action in conjunction with the fiscal year 1986 budget resolution to freeze retiree and survivor benefits could result in an additional reduction of up to 3 to 4 percent in the lifetime value of the annuity.

Therefore, on behalf of the more than 78,000 survivors of deceased service members and the 781,000 members currently participating in the SBP, we request that this committee do its utmost to preserve the COLA guarantee for SBP participants.

That concludes my statement, Mr. Chairman.

[The prepared statement of Colonel Arcari follows:]

PREPARED STATEMENT OF COL. PAUL W. ARCARI, USAF, RETIRED, DEPUTY DIRECTOR, LEGISLATIVE AFFAIRS, THE RETIRED OFFICERS ASSOCIATION

Mr. Chairman and Members of the Committee: I am Colonel Paul Arcari, Deputy Director of Legislative Affairs of The Retired Officers Association, (TROA), which has its National Headquarters at 201 North Washington Street, Alexandria, Virginia. Our Association has a membership of over 343,000 retired, former and active duty officers of the seven uniformed services. Included in our membership are 42,871 widows of former members.

I appreciate the opportunity to appear before you today to present our views on the Survivor Benefit Plan (SBP). During the last few weeks we have examined the SBP changes proposed by the House Armed Services Committee (HASC) and discussed them extensively with the other military associations.

We strongly endorse the highly innovative two-tiered concept embodied in the plan and the concurrent elimination of the Social Security offset. The latter feature of the current law has been the source of considerable confusion and frustration on the part of members and counselors as well, and its elimination and replacement by a two-tiered concept will be viewed as an innovative breakthrough. A brief discussion of the SBP and in particular, the Social Security offset will help illustrate the complexity of the current system.

FEATURES OF THE SBP

Members who retire after September 20, 1972, who have a spouse or children on the date of retirement, will automatically be covered under the SBP unless they elect to decline coverage before retirement.

The cost of providing coverage for a spouse and/or children and the benefit for these survivors is based on an amount designated by the retiree at retirement and called the base amount. The base amount can be any amount of retired pay between $300 and the full amount of retired pay. (If retired pay is less than $300, the base amount must be the full-amount of retired pay.)

The cost to the member of providing the survivor benefit to the spouse is 2½ percent of the first $300 of the base amount plus 10 percent of the remainder of the base amount. The cost continues for the life of the member unless the designated beneficiary predeceases the member or if they are divorced. When children are also designated as beneficiaries, there is an additional actuarial charge which is dependent on the age of the member, the spouse, and the youngest child. Cost for an annuity for children only is based on an actuarial charge dependent on the age of the member and the youngest child.

The benefit paid to the survivor is 55 percent of the base amount. However, the benefit is reduced by the Social Security annuity attributable to military service after the surviving spouse reaches age 62 but no more than 40 percent of the SBP annuity. The offset also is made in the case of a widow under age 62 who has one dependent child under age 18. If children are eligible beneficiaries, the payment is divided equally among them. Payments to the surviving spouse terminate upon death or upon remarriage before age 60. Payments to eligible children cease at age 18 or age 23, if a student. There is no age limit for an eligible incapacitated child.

If a member has no spouse or children at the time of retirement, he may elect to provide survivor protection to a person with an insurable interest. The member may also elect to provide protection to a former spouse. The cost for these beneficiaries is 10% of the base amount plus an additional 5% for each full five years the beneficiary is younger than the retiree, not to exceed 40% of retired pay. The annuity is 55% of the retired pay after the cost has been deducted.

The SBP member cost and the annuity are both adjusted to reflect cost-of-living increases.

The SBP program also contains a provision for a payment to the surviving spouse of a retirement eligible member who dies on active duty after completing 20 years of active service. The payment is equal to the difference, if any, between the amount of Dependency and Indemnity Compensation (DIC) paid to the spouse and 55 percent of the retired pay to which the member would have been entitled had he retired on the date of death. If the DIC annuity is larger than the SBP amount, the survivor is not entitled to SBP. If there is no spouse and only surviving children, no SBP is payable to them under current law.

The SBP is also available to members of the reserve components who become eligible for retired pay upon reaching age 60. Under the SBP, each reservist is required to make an election upon completing 20 years of creditable service. Reservists will be notified of their eligibility at that time and they will have 3 months from receipt of notification to elect in writing one of the three options:

(1) The reserve member can decline to make an election for or against SBP coverage until attaining age 60. Consequently, there would be no coverage in the years between becoming retirement eligible and attaining 60 years of age.

(2) The reserve member may elect a survivor annuity payable on the date the member would have attained age 60 if he dies before age 60, or on the date of his death if he dies on or after that date.

(3) The reserve member may elect a survivor annuity payable on the date of the member's death whether before or after age 60.

One problem has arisen with the notification process. Under current law, if the reservist dies after becoming eligible but before making a selection, his spouse does not receive the SBP.

The cost of providing additional coverage under the reserve options before age 60 is shared entirely by those individuals potentially benefitting from the coverage. The cost to the retiree is in the form of an additional charge above the standard contribution of 2½ percent of the first $300 of retired pay plus 10 percent of the remainder. The cost to the survivor is in the form of a reduction applied to the 55 percent of the base amount. The amount of these reductions is based on an actuarial calculation using a specified group annuity table and discount rate, the member's age at election, the difference in age and sex of the survivor, and the option elected.

The cost and subsequent SBP annuity for a member who elects not to participate until he reaches age 60 and is entitled to retired pay is identical to that of any other retiree.

The reserve component SBP member cost and the annuity are both adjusted to reflect cost-of-living increases.

SOCIAL SECURITY OFFSET IS COMPLEX AND CONFUSING

Now for the crux of the problem and what confounds our members:

When a widow is age 62 or over and is entitled to a widow's Social Security survivor payment based on her husband's covered employment, whether or not she receives it, the SBP law requires that her SBP annuity be reduced. It is also reduced (regardless of age) if she is receiving a mother's Social Security benefit with only *one* child in her care. The following are some of the rules that apply:

The reduction of the annuity is based solely on the value of wage credits earned during active military service after Dec. 31, 1956.

Wage credits earned in civilian employment have nothing to do with reducing the SBP annuity—only active military service performed after 1956 is used for this purpose.

SBP does not reduce a widow's Social Security survivor payment.

A widow's SBP annuity is reduced after she is age 62 even though she may not apply for Social Security survivor benefits. The fact that she is entitled to benefits based on her husband's earnings makes the reduction mandatory.

A widow, regardless of age, who is caring for *one* dependent child, also has her SBP annuity reduced. The offset continues until the child is 18 even though the Social Security mother's benefit terminates when the child is 16. The reduction is based solely on her husband's age and his military-earned wage credits after 1956.

The annuity is not reduced if a widow under age 62 has no dependent children, or has two or more dependent children.

There is no reduction in the annuity if a widow is working and because of her income, is not eligible to receive Social Security benefits.

Effective with payments on and after Sept. 30, 1985, an SBP annuity shall not be offset to the extent that the Social Security benefit to which the beneficiary is entitled is based on the beneficiary's own earnings.

The SBP annuity is reduced in the case of widows of Reserve retirees who did not serve on extended active duty after 1956 but did perform short periods of Active Duty for Training (ACDUTRA) after that date. Active-duty for training pay is subject to Social Security taxation the same as extended active duty pay. However, the reduction of the annuity is relatively small in these situations, ranging from about $2.00 to $4.00 per month for each week of training duty. Wage credits earned during periods of ACDUTRA of less than 30 consecutive days performed after Dec. 1, 1980 do not affect a widow's annuity, provided the reservist is refunded the Social Security tax paid on ACDUTRA pay because his civilian income exceeded the maximum covered earnings for the year concerned.

Not only are the rules mindboggling, but the time lapse between selection of SBP and the survivor's age when the offset is triggered, causes a financial shock. Most have forgotten or were never aware of the Social Security offset. Further, when the SBP decision is made, the member can not be assured, with any degree of certainty, what the survivor benefit will be at age 62 or beyond.

TWO-TIER SYSTEM HAS GREAT POTENTIAL

The HASC proposal would eliminate the Social Security offset and establish a two-tier system under which the survivor would receive 55 percent of retired pay before age 62 and 35 percent thereafter (in recognition of the entitlement to Social Security.) In order not to disadvantage current survivors as well as the future survivors of current retirement-eligible or retired servicemembers, the HASC proposes a save pay provision to ensure that such individuals receive guaranteed benefit levels no lower than they would have received under the plan as it existed before the date of enactment. All future retirees would be covered by the two-tier plan.

While we strongly support the concept, this feature of the HASC proposal has two significant shortcomings as far as the military associations are concerned.

First, while the HASC report suggests that their save pay proposal would guarantee benefit levels no lower than they would have received under the plan (as it existed before the date of enactment) the statutory language does not achieve that objective. The savings provision is static and only guarantees the member or survivor no less than the annuity calculated on the date of enactment. It does not guarantee them the initial annuity level adjusted by subsequent increases in retired pay which is what survivors would be entitled to under the current plan. As we understand it, the HASC staff is aware of this deficiency and intends to make the necessary technical changes to have the statutory language conform to the report language.

Second, the HASC does not extend the save pay provision to survivors who earn Social Security in their own right and would be exempt from the Social Security offset under the provision of the 1984 law which is scheduled to be effective for SBP payments after September 30, 1985. As currently contemplated, the HASC would repeal this provision. Doing so would result in a significant loss in benefits for the thousands of survivors and potential beneficiaries who, through the extensive publicity surrounding the law, were essentially guaranteed "no offset" if they met the earnings criteria. Conservative estimates by the Congressional Budget Office indicate that approximately 10 percent of the current SBP survivors and beneficiaries would be adversely affected by the repeal of this important provision. Applying this estimate to The Retired Officers Association reveals that about 34,000 of our members could be affected, including more than 4,200 survivors.

To eliminate this potential inequity and breach of faith, we strongly recommend that the save pay provision be modified to "grandfather" all survivors, retirees and retirement eligible members under the provisions of the laws already enacted including the law enacted last year.

We are also concerned that setting the second tier at 35% of the base amount will detract from rather than enhance the plan. In earnings record, three other categories of future participants could be disadvantaged by the proposal.

Survivors of service members who retired on disability and whose Social Security wage record was predominantly based on non-military wages currently face a minimal offset.

Spouses whose current earnings exceed the Social Security earnings limitation currently do not have an offset.

The majority of reserve retirees now have a minimal offset because their covered military wages are normally limited to active duty training periods and other short periods of active duty. Monthly drill pay is not subject to Social Security taxes and therefore does not constitute a covered wage. Further, as indicated earlier, wage credits earned during annual active duty training do not count toward the offset if the reservists' civilian income exceeds the maximum covered earnings for the year concerned.

Given these considerations, we do not believe a 35% second tier is an appropriate trade-off for the protection the current law would provide future retirement eligible personnel.

In addition, there are some perceptual problems associated with the a 35% second tier, not the least of which is the negative connotation associated with giving up 10 percent of retired pay to protect one-third. The other is the perception that members would be trading off a maximum 40% offset for what equates to a 36% offset across the board.

THE ADVANTAGES OF A 40 PERCENT SECOND TIER

It is our assessment that voluntary participation will decrease unless some adjustments are made to make the new system clearly superior to the existing one. A second tier set at 40% accomplishes that objective.

Significantly reduces the offset to what equates to 27% across the board.

Establishes a positive cost relationship between the maximum and minimum benefit for all grades and years of service combinations.

Lessens the impact for future retirement eligibles who would be disadvantaged by the HASC plan.

Tips the scales in a positive way for reservists, which is important given the increased reliance being placed on the reserve forces.

Reduces the aggregate cost share to 56% member and 44% government. Use of an aggregate cost sharing percentage is somewhat misleading. As indicated in Chart I [1] the cost sharing for the majority of enlisted members ranges from 57%-59% and in Chart II shows that costs range from 66% to 83% for officers. The reason for this phenomenon is that retirees who elect the maximum coverage subsidize those who elect the minimum coverage, former spouses and those who die on active duty after becoming retirement eligible. Charts III and IV for enlisted members and officers respectively depict average SBP benefits and cost sharing percentages under four alternatives. Of particular interest is the column identified as "Current Plan Without Offset." That column actually represents the SBP for those exempted from the Social Security offset under last year's law and very graphically illustrates the severe penalty which would be imposed on that group if they were not grandfathered.

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[1] Charts were provided by DOD Directorate of Compensation Studies.

CHART I

Source: DoD Directorate of Compensation Studies

AVERAGE SBP BENEFITS (55-40 HASC MOD)-

SELECTED ENLISTED MEMBERS

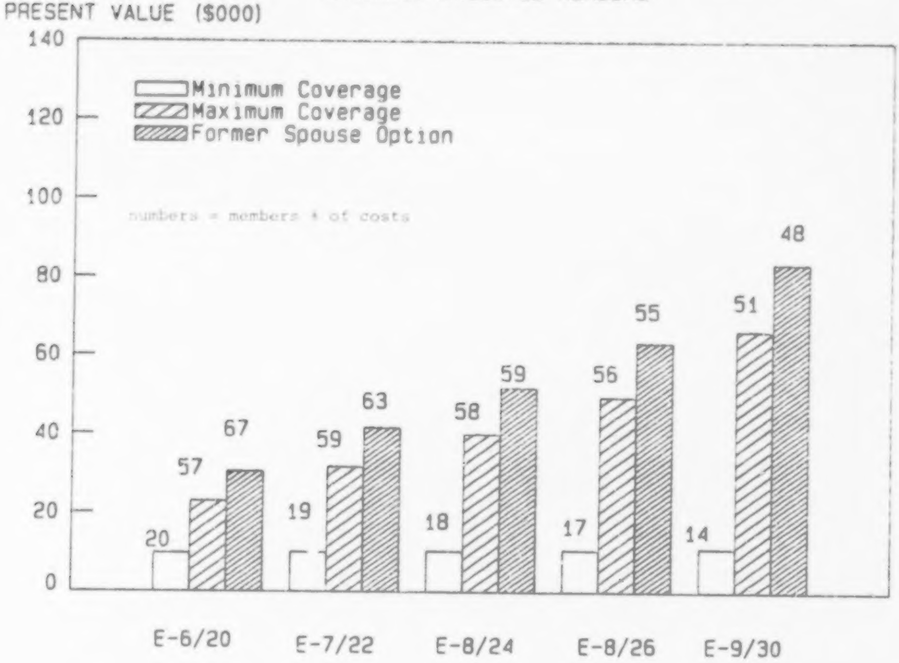


CHART II

Source: DoD Directorate of Compensation Studies

AVERAGE SBP BENEFITS (55-40 HASC MOD)

SELECTED OFFICER MEMBERS

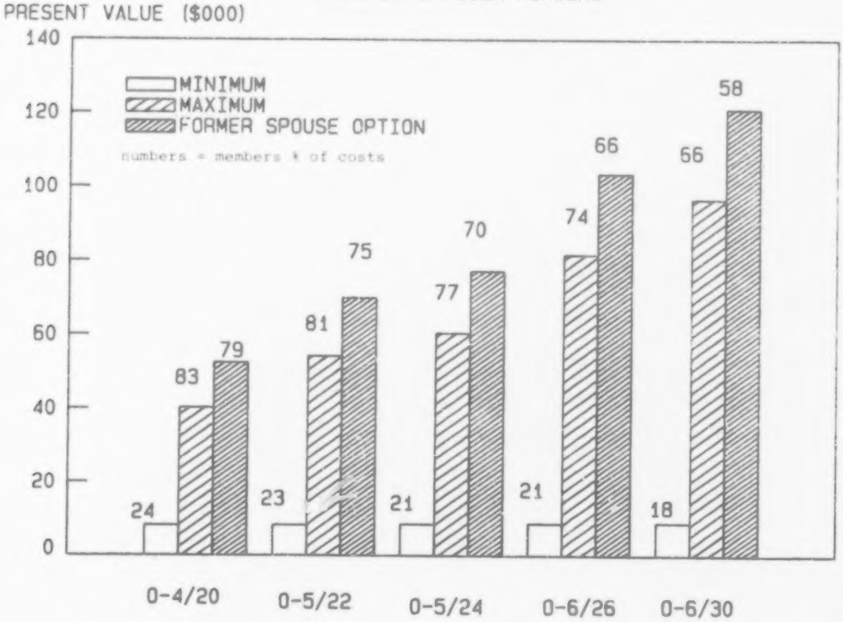
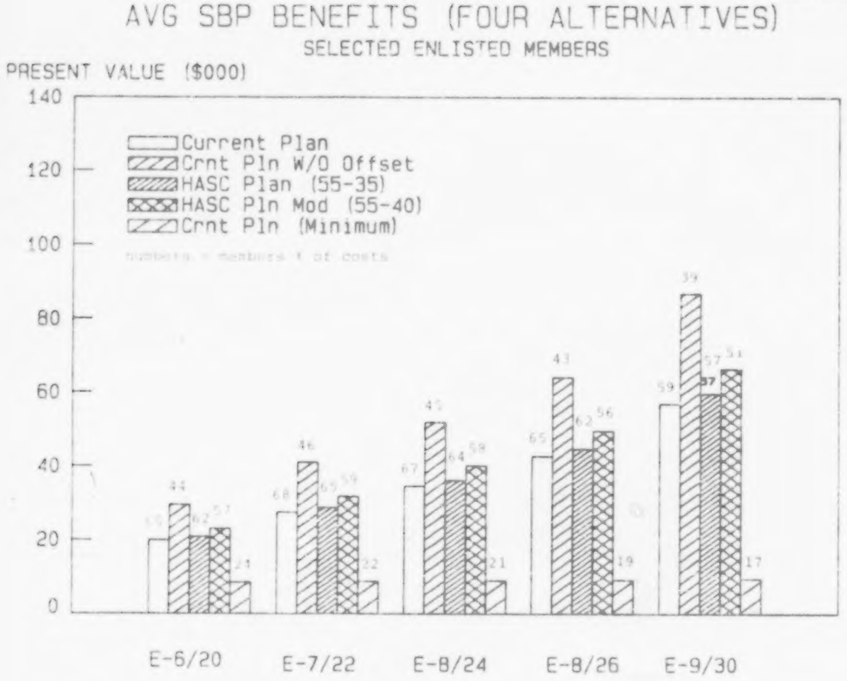


CHART III

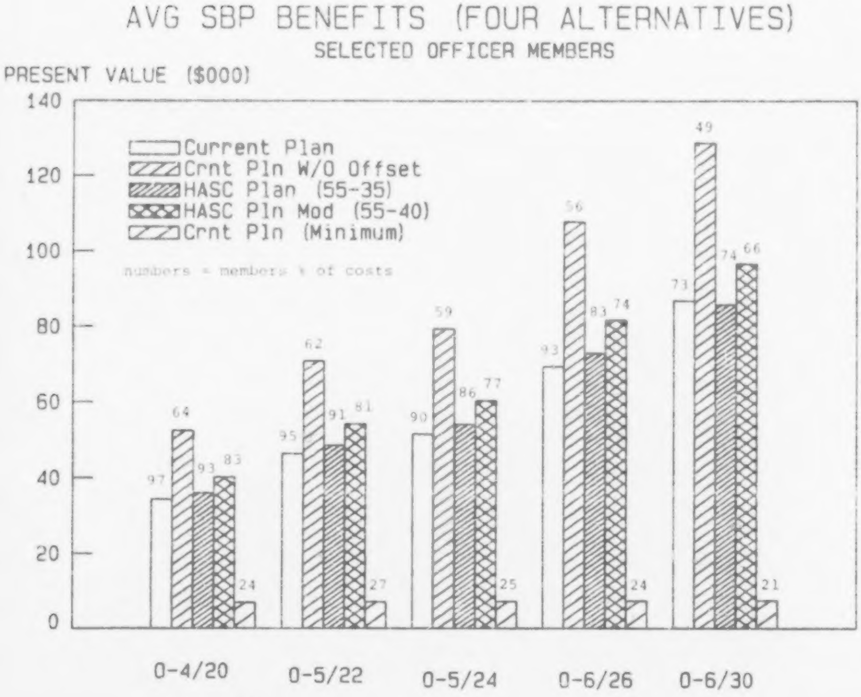


Source: DoD Directorate of Compensation Studies

AVG SBP BENEFITS (FOUR ALTERNATIVES)

SELECTED ENLISTED MEMBERS

CHART IV



Source: DoD Directorate of Compensation Studies

AVG SBP BENEFITS (FOUR ALTERNATIVES)

SELECTED OFFICER MEMBERS

Adoption of 55/40 vis a vis 55/35 would enable the vast majority of military associations to become advocates of the SBP. Therefore, we strongly recommend this modification of the HASC proposal.

SPOUSAL CONSENT

We do not support the HASC provisions which would require spousal consent before a member could elect not to participate in the SBP. We consider it to be particularly unfair to confer 51% of the "voting rights" in the member's retired pay to the member's spouse. The decision whether or not to leave a part of that retirement pay as an annuity to survivors should remain the member's. Requiring spousal notification is appropriate to ensure that the spouse understands the effects of the election. However, requiring spousal consent as a precondition to non-selection redefines the SBP as a spousal entitlement and removes the SBP election decision from the hands of the member who has earned the retired pay through a career in uniform. Although a remote possibility, to cite an extreme example, a member could have served on active duty 30 years, been married only one year, and yet under the provisions of the bill, the spouse could exercise veto power over the member's SBP decision. While we appreciate the intent of the proposal and the need to protect spousal interests, we believe this can be accomplished through other means. For example, having the member obtain notarized certification that the spouse has been notified prior to election validation would ensure that spouses are informed and would still permit the member to maintain ultimate control over his/her retired pay. We would not object if spousal consent were limited to marriages which last 20 years or more if it were applied to the minimum base only.

The HASC proposal makes several other important and necessary improvements in the SBP which we strongly support. Among these are:

(1) Increases the $300 minimum base (which costs $2.50 per $100 of coverage) at the same time and by the same percent as the retired COLA. For example, at an inflation rate of 5%, the $300 base would grow to $600 in 15 years. The purpose of this change is to insure that 60/40 member/government cost sharing ratio which had eroded to 73/27 by 1984 will not erode further.

(2) Extends SBP to children of retirement eligible personnel who are on active duty and have no surviving spouse.

(3) Covers survivors of reservists who died after enactment of the Reserve Component SBP in 1978 and during the 90 day notification period as well as reservists who die during the 90 day notification period in the future. To preclude inadvertently denying survivor benefits due to administrative delays in the notification process, the coverage should begin with date of eligibility rather than date of notification.

(4) Authorizes child coverage in conjunction with former spouse coverage. Although a service member who participates in the Survivor Benefit Plan currently may elect spouse-child coverage, the coverage category that provides for the transition of survivor benefits from the spouse to the child or children if the spouse dies or becomes otherwise ineligible for benefits, a service member with a former spouse and child does not have the same option. The HASC proposal offers former spouse-child coverage as an additional option under the program at no additional cost to the government. A service member who previously elected former spouse coverage could add child coverage within one year of the date of enactment of this proposal.

(5) Allows a retiree not to resume coverage upon remarriage if the new spouse consents. (As indicated above, we object to the spousal consent feature.)

(6) Extends SBP to survivors of officers who die after 20 years of active duty but are not eligible to retire as an officer because they do not have the 10 years of commissioned service required by law.

(7) Authorizes repayment of Survivor Benefit Plan deductions in installments.

THE COST OF LIVING ADJUSTMENT (COLA) GUARANTEE

A factor frequently overlooked is the compelling influence the COLA "guarantee" had on members' decisions to elect to participate in the Survivor Benefit Plan (SBP). If it were not for the inflation protection built into the SBP, a feature life insurance companies are unable to match, numerous members would have opted for life insurance as the more desirable and preferable form of survivor protection. The importance of inflation protection was acknowledged in 1982 when retired pay was capped for a three year period in the Budget Reconciliation Act but the SBP was excluded from the cap.

In this regard, a little known fact is that when the May 1, 1984 COLA was delayed until December 1, 1984, the lifetime value of the SBP annuity was also inadvertently reduced by up to 3%. Action in conjunction with the FY86 Budget Resolution to freeze retiree and survivor benefits could result in an additional reduction of up to 3%-4% in the lifetime value of the annuity. Therefore, on behalf of the more than 78,000 survivors of deceased service members and the 781,000 members currently participating in the SBP, we request that this Committee do its utmost to preserve the COLA guarantee for SBP participants.

FUTURE CONSIDERATIONS

Our comments so far have addressed the current system, the HASC proposal for change and our recommendations for modifying the HASC proposal. We would now like to present for further study by OSD and the Congress our recommendations to permanently restructure the program and make it more equitable:

(1) Establish a single tier lifetime benefit of 50% with no Social Security offset. This recommendations takes on particular significance in light of the ongoing debate over further reductions in the military retirement system. Should cuts in the range of 10–22% occur, the SBP would need to be enhanced to afford the survivors of military retirees adequate protection.

(2) Base the cost of participation on an actuarially derived 60/40 cost sharing plan based on the servicemembers age at retirement. How to apply the cost sharing formula in the event of remarriage or an open enrollment period are areas requiring examination and definition.

(3) Authorize participation at levels up to 50% of the member's retired pay.

(4) Include insurable interest provisions at neutral costs.

(5) Authorize withdrawal at any time after five years with consent of beneficiary.

CONCLUSION

The Retired Officers Association (TROA) supports the majority of the initiatives proposed by the HASC. The two-tiered system is an innovative concept which should eliminate much of the controversy and confusion surrounding the current Social Security offset. To be viable and acceptable to TROA the House plan should be modified as follows:

(1) Revise the save pay provision for current survivors as well as the future survivors of current retirement eligible or retired servicemembers to ensure that such individuals are in fact "grandfathered" and receive guaranteed benefit levels no lower than they would have received under the plan as it existed before the date of enactment.

(2) Include in the "grandfathered" category the current survivors as well as future survivors of current retirement eligible or retired servicemembers who, under the provisions of PL 98-525, would be exempt from a Social Security offset because their Social Security is based on their own earnings record.

(3) Establish the second tier at 40%.

(4) Limit spousal consent to marriages which last 20 years or more or to the selection of the minimum base only.

These changes will restore the viability of the SBP as a major element of the total compensation package. A mounting concern is that proposed decrements to the military retirement system will erode the base and therefore diminish the adequacy of the protection afforded dependents by the SBP. This concern as well as the other considerations discussed earlier should be included in the comprehensive review of SBP now being conducted by OSD.

I would be happy to attempt to answer any questions the committee might have.

Senator Wilson. Thank you very much, Colonel; Ms. Locke.

STATEMENT OF ROSEMARY A. LOCKE, CHAIRMAN, SURVIVOR BENEFIT PLAN STUDY, NATIONAL MILITARY FAMILY ASSOCIATION, INC.

Ms. Locke. Thank you.

Mr. Chairman, I am Rosemary Locke, representing the National Military Family Association. Our association is a volunteer, nonprofit organization of family members and service personnel, active duty and retired, with members in all 50 States and at military bases throughout the world. We welcome this opportunity to express our views on the proposed changes in the survivor benefit plan.

I will summarize my statement and I request that my full statement be included in the record.

NMFA supports the simplification concept of the House Armed Services Committee two-tiered plan. Clearly, the current SBP is too complex. Unfortunately, the proposed 55/35 plan does not restore SBP's original cost formula of 60 percent member cost and 40 percent Government subsidy, except in one category, E-9 with 30 years of service. All other categories of participants who select the maximum base continue to pay more for the benefit, some as high as 93 percent.

We recommend modifying the two-tier plan to 55 percent of the selected base amount until age 62, and at least 40 percent thereafter. I would agree with the discussion today that 62 is just an arbitrary age. However, even at the 40 percent inequities would still exist. None of the officer categories would receive the originally intended cost ratio, and the 40 percent amount would still be 10 percent below the survivor benefits mandated by ERISA.

We are concerned that the language of the amendment does not fully protect current SBP participants or those active duty members eligible for the plan. The decision to base the beneficiary's annuity on the plan as presently structured or as it would be structured under this amendment should be made only at the time the annuity begins. This would ensure that the beneficiaries of all those presently enrolled in or eligible for the plan would receive no less of an annuity under this amendment than they would have under the present plan.

NMFA supports spousal concurrence. It will allow military spouses the same decisionmaking role in SBP participation as spouses covered under the Civil Service Spousal Retirement Act and the Retirement Equity Act passed last year. Like civilian couples, military families will participate only if they believe SBP is a fair benefit.

Senator, you asked the question about the service member who might be married only a year before retiring. If that service member is concerned about the SBP, he could easily eliminate the problem by having a spousal prenuptual agreement with his spouse.

NMFA supports the option not to resume coverage upon remarriage, subject to spousal concurrence. Further, we request that this committee allow SBP participants the option of withdrawing from the plan, but only with spousal concurrence. We believe that more service members and their spouses would participate in the plan if they knew their decision was not irrevocable.

NMFA supports those sections relating to indexing, extended coverage, and repayment of SBP premiums.

Unfortunately, the two-tier concept will be detrimental to those spouses who have or will earn Social Security benefits from their own employment. They will lose the waiver from the Social Security offset of SBP which Congress enacted just last year. Spouses receiving a combination of dependency and indemnity compensation and SBP and spouses with a Social Security offset less than the current 40 percent cap will also receive less under the House plan.

We request that at a future date the Congress explore an actuarial plan with member cost of 60 percent and Government subsidy of 40 percent. The actuarial plan would be more fair to all participants.

In summary, the National Military Family Association supports the proposed House changes in SBP with the following modifications:

One, increase the second tier to at least 40 percent of the base amount when the annuitant reaches age 62;

Two, add the option of withdrawal from the plan with spousal concurrence; and

Three, clarify certain areas in the language of the bill.

Now, finally, the House proposal does not address the effects of recent COLA caps. One of the strongest elements in SBP is the ability of the participant to know that his or her spouse will have a benefit not eroded by inflation. Current SBP participants bought the plan assuming the COLA's; without COLA protection, SBP is a questionable benefit.

Thank you for giving us the opportunity to present this statement.

[The prepared statement of Ms. Locke follows:]

PREPARED STATEMENT OF ROSEMARY A. LOCKE, SURVIVOR BENEFIT PLAN STUDY CHAIRMAN, THE NATIONAL MILITARY FAMILY ASSOCIATION

Mr. Chairman: I am Rosemary A. Locke, Chairman of the Survivor Benefit Plan study group of the National Military Family Association (NMFA). Our association is a volunteer, non-profit organization of family members and personnel, active duty, reserve and retired, of the seven uniformed services with members in all fifty states and at military bases throughout the world. NMFA seeks to inform and educate military families about issues affecting the quality of military life and to communicate their concerns to policy makers in the Department of Defense and the Congress. We welcome this opportunity to express our views on the Survivor Benefit Plan (SBP), specifically on those changes in the Plan proposed in H.R. 1872.

After a full career of military service, retired pay usually is the service family's most important asset. The very nature of service life makes it virtually impossible for service families to acquire substantial assets while on active duty. Government ordered moves are frequent and costly to the service family; home ownership is difficult. The military spouse experiences an unemployment rate that is three times that of civilian spouse, and when employed, is unlikely to rise above entry level positions. Military spouses seldom qualify for their own retirement programs. Thus, upon the death of the servicemember, surviving spouses are less likely to have financial security available from their own employment than are their civilian counterparts.

It is essential that income from the earned asset, retirement pay, continue in the event the servicemember dies before his or her spouse and dependents. Since 1972, the government sponsored, cost-sharing program, the Survivor Benefit Plan, has allowed servicemembers the right to direct a portion of their retired pay for spouses or dependent survivors. Our testimony before this committee primarily concerns the proposed SBP changes made by the House Armed Services Committee (HASC). Are they an improvement over the existing Plan? If so, will the Plan be fair and equitable? Will the participation rate increase?

The National Military Family Association supports the simplification concept of the HASC two-tier Plan. Clearly, the current SBP is so complex that many SBP participants do not understand the Plan they have selected. It certainly is too important and complex an issue to be covered in the typical half-hour briefing given during retirement seminars. Adverse and conflicting information about the value of SBP in service-oriented publications confuses and concerns current plan participants and those contemplating SBP participation.

The proposed 55-35 Plan does not restore SBP's original cost formula of 60 percent member cost and 40 percent government subsidy, except in one category, E-9 with 30 years of service. All other categories of participants who select the maximum base continue to pay more for the benefit, some as high as 93 percent. Like other federal employees, career military members should be given the right to provide for their survivors through a cost-sharing plan that is equitable.

NMFA recommends that the HASC Plan be modified to a two-tier plan of 55 percent of the selected base amount until age 62 followed by at least 40 percent of the base amount thereafter. Inequities would still exist since even at the 40 percent level, none of the officer categories would receive the originally intended cost ratio. The 40 percent figure would still be 10 percent below the survivor benefits mandated by the Economic Retirement Income Security Act (ERISA).

NMFA is concerned that the language of paragraph (2) of the Effective Date and Transition portion of the amendment does not fully protect those currently enrolled in or eligible for the Plan. The decision to base the beneficiary's annuity on the Plan as presently structured or as it would be structured under this amendment should be made only at the time the annuity begins. This would insure that the beneficiaries of all those presently enrolled in or who are eligible for the Plan would receive no less of an annuity under this amendment than they would have under the present plan.

Further, in paragraph (2) of the Effective Date and Transition portion of the amendment, we are uncertain as to the intent of the phrase "participants in the Plan." Does this refer to those active duty servicemembers presently covered by the Plan who are retirement eligible, or only to those who have retired and elected the Plan?

NMFA supports Section 673, indexing the base amount of $300. It is a step toward correcting the Plan's original cost ratio design, but only for future participants.

NMFA supports Section 674 which would allow spouses a legal role in the decision-making process to participate in SBP. Spousal concurrence in the HASC Plan is consistent with the Civil Service Spouse Retirement Act and the Retirement Equity Act passed last year in which pension plans are required to provide automatic survivor benefits. The spouse of a plan participant must give his or her consent to an election to waive a joint and survivor annuity. NMFA, however, questions the Congressional Budget Office assumption that half of the spouses, who previously would not have been covered with member-only election, will elect to participate in SBP. Like civilian couples, military members and their spouses make financial decisions on merit. If service families believe that SBP is too expensive for the actual annuity received they will elect not to participate.

NMFA supports Section 675, the option not to resume coverage upon remarriage, subject to spousal concurrence. Further, we request that this Committee consider allowing those retirees currently participating in SBP the option of reassessing their needs periodically so that they also could withdraw from the plan but only with spousal concurrence. While this association has long been a strong supporter of the Survivor Benefit Plan, we believe that more servicemembers and their spouses would participate in the Plan if they knew their decision was not irrevocable. Just as in the case of the remarriage option, financial requirements may change within the original marriage. The government would not incur additional costs with an election to withdraw from the Plan since it would retain the retiree contributions to the date of withdrawal.

NMFA supports Sections 676 and 677. Clearly, all dependent children and spouses of retired or retirement eligible servicemembers (those having served 20 or more years) should be afforded coverage under SBP. Again, we request clarification of the phrase, ". . . dependent child, if the child resulted from the person's marriage to that former spouse" (Sec. 676, line 10). Would this exclude children adopted during the marriage?

NMFA also supports Section 678, repayment of refunded SBP contributions and Section 679, which would provide an annuity for survivors of certain reservists. We appreciate the House Armed Services Committee's sensitivity to the needs of various segments of the military community as expressed in Sections 674 through 679.

Unfortunately, the two-tier concept will be detrimental to other segments of the military community. NMFA is particularly concerned about those spouses who have or will earn social security benefits from their own employment. Last year, the Congress enacted legislation which would have given those spouses a waiver from the social security offset of SBP, since they would not be receiving a survivor's social security annuity based on the servicemember's entitlement. The reduction of SBP at age 62 by the social security entitlement earned on active duty is resented by most SBP participants, but it is especially offensive to spouses who have earned and use their own social security entitlement. The loss of the waiver could deter future military spouses from participating in SBP.

Spouses receiving Dependency and Indemnity Compensation and SBP will receive less under the proposed Plan. Spouses whose social security survivor's benefit is less than the current 40 percent cap; e.g., survivors of disabled veterans, will also receive less.

Finally, the HASC proposal does not address the effects of recent COLA caps on the Survivor Benefit Plan. This association would be remiss not to address the issue.

One of the strongest elements in SBP is the ability of the participant to know that his or her survivors will have a benefit not eroded by inflation. Reductions or delays in cost of living adjustments for retired pay reduce the value of SBP and are a strong disincentive to future SBP participation. Current SBP participants "bought" the plan assuming COLA's. Without COLA protection, SBP is a questionable benefit.

In summary, the National Military Family Association supports the proposed HASC changes to SBP with the following modifications:

1. Increase the second-tier to at least 40 percent of the base amount when the annuitant reaches age 62.
2. Add the option of withdrawal from the plan with spousal concurrence.
3. Clarify certain areas concerning "grandfathering" for current SBP participants, retirement eligible servicemembers and adopted children. We also recommend that the Congress explore an actuarial plan with member costs of 60 percent and government subsidy of 40 percent. The actuarial plan would be more fair to all participants.

Thank you for giving us the opportunity to present this statement.

Senator Wilson. Thank you very much, Ms. Locke.

Finally we will hear from Sergeant Major McKinney, representing the Non-Commissioned Officers Association.

STATEMENT OF SGT. MAJ. C.A. "MACK" McKINNEY, RET., VICE PRESIDENT FOR GOVERNMENT AFFAIRS, THE NON-COMMISSIONED OFFICERS ASSOCIATION

Sergeant Major McKinney. Thank you, Mr. Chairman, for this opportunity to present the views of the Non-Commissioned Officers Association on the proposed House changes to the uniformed services survivor's benefit plan.

The subcommittee has my prepared statement for the record, so I would like a few minutes to offer some additional remarks. The chairman and members of the subcommittee may recall that the primary purpose and intent of the original SBP was to offer a reasonable level of income maintenance for the surviving spouses of deceased members of the uniformed services.

Both the old contingency option plan and the retired serviceman's family protection plan were too costly, not easily understandable, probably less so than our current program, and elections to participate came too early for most members to intelligently determine whether or not to subscribe to the plan. Further, both were self-supporting. The Government provided no financial assistance as it did for the survivor plan for Federal employees.

For numerous reasons, mostly because far too many of our military widows were left without an annuity before eligibility for Social Security, the uniformed services survivor's benefit plan came into existence. To make the plan fiscally feasible for the Federal Government, Congress and Defense proposed a reduced annuity at age 62, when it was assumed the widow became eligible for other governmental benefits, for example, Social Security.

From this sprang the Social Security offset, which really was not a true Social Security offset but one devised to easily explain why there was a reduction in the annuity. Since the Federal Government did contribute to the member's Social Security account while he or she was in the service, what better way to justify the offset than to say it was no more than a recoupment of those contributions made in behalf of the member's active service.

However, the words "Social Security" opened a Pandora's box. The result was an attack on the SBP from self-interest groups who believed they should receive special treatment under the plan. Their complaints were heard, and Congress provided special provisions in the plan to serve their interests.

NCOA has never agreed with most of these special provisions and is delighted that a two-tier system is being proposed. However, the 55/35 concept proposed by the House is not sufficient to offset the provisions related to certain special interest groups, particularly those who have dependent children or in receipt of dependency and indemnity compensation, both of which were considered under the original plan.

The modification of the concept to 50/40 is more reasonable, is more equitable to all surviving spouses, and is, of course, more palatable to prospective participants. Further, it leaves no apparent opening for special interest groups. NCOA fully subscribes to the two-tier system, provided it is modified to 55/40 and is made retroactive, but with the save pay clause for current beneficiaries.

In addition, NCOA seeks the two-tier system for former spouses and other insurable interests covered under the plan. It supports the indexing provision, but opposes spousal consent, and we do this while referring to a House report that said, "we believe the concept of retired pay, as an earned right in which the retiree has a legal interest, should be beyond challenge."

NCOA also advocates the broadening of the plan to cover eligible dependent children and has no major objection to the other provisions contained in the House bill.

It does, however, make the recommendation that a new enrollment period be granted since these changes, if enacted, are of such great magnitude that current retirees should have one more opportunity to sign on. Further, NCOA recommends that PSFPP participants be given the opportunity to convert to the survivors benefit plan at any time and without penalty.

Finally, NCOA believes that a short period, say 2 years, should be granted after retiring from the military before a member must make his or her final decision to participate in the plan.

Thank you, Mr. Chairman, for your time.

[The prepared statement of Sergeant Major McKinney follows:]

PREPARED STATEMENT OF C.A. "MACK" MCKINNEY, VICE PRESIDENT FOR GOVERNMENT AFFAIRS, THE NON-COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

Mr. Chairman. On behalf of the Non Commissioned Officers Association of the USA (NCOA) I extend the appreciation of its more than 180,000 regular members for this opportunity to discuss the Uniformed Services Survivor Benefit Plan (SBP). Since the scope of this hearing is limited to the proposed amendments contained in the House version of the FY 1986 Defense Authorization Bill, now under consideration by the full committee of the House, NCOA urges this distinguished panel to schedule subsequent hearings on SBP to consider other areas of improvement.

TWO-TIER SYSTEM

The most substantive change in the SBP program is contained in Section 672 of the House bill. It will eliminate the so-called "social security offset" and provide for a two-tier system of payment to surviving spouses of deceased members of the uniformed services. The plan would offer an annuity equal to 55 percent of the participating member's covered retirement pay to the surviving spouse until age 62. Thereafter, the payment would be reduced to 35 percent.

There is excellent logic behind the House amendment. Foremost, it makes the program infinitely easier to understand. It also removes from law a cumbersome provision that made it practically impossible for most interested parties to compute the actual value of the annuity after age 62. Additionally, it reduces the costs of participation and more closely aligns the costs ratio with that of the civil service survivor program, an intent suggested in the early phases of the creation of the uniformed services' plan.

NCOA has never supported the social security offset. It wasn't then and continues not to be related to the program administered by the Social Security Administration. The offset is often based on fallacious presumption of entitlement. Thus, the fairest and most equitable solution would be no offset. However, in the absence of such, the two-tier provision appears to be the best solution.

Nevertheless, the 55/35 percent proposal doesn't go far enough. It will provide only a minimum increase in most annuity payments while, apparently, terminating the special provisions for certain surviving spouses currently contained in Section 1451 of Title 10, United States Code. This being the case, NCOA cannot endorse the proposal.

Instead, NCOA recommends that the two-tier provision be further amended to reflect a 55/40 percent payment. This will offer an attractive package and one the uniformed services and the associations, such as NCOA, can sell to their members. Most important to NCOA, is the offer of a survivor benefit plan that is equitable to all surviving spouses. As the plan now stands, different annuities are paid to many with different circumstances. NCOA believes that one person paying the same "premium" as another should be assured that his or her surviving spouse will receive the same annuity as that of the other's spouse.

FORMER SPOUSES

The House bill is silent on whether the two-tier system will affect former spouses and other SBP insurable interest beneficiaries. If these parties are not included in the two-tier system a substantial inequity will be perpetuated. Since former spouses and others with an insurable interest will be treated more generously than current spouses some accommodation should be made to participants in the program. A premium reduction reflecting the reduced value of benefits after age 62 would be one method of dealing with the problem. However, the preferred resolution to the problem is to include former spouses and other insurable interests in the two-tier system.

INDEXING

Indexing the base amount of the SBP program is provided in section 673. NCOA fully supports this amendment but believes the indexing should be made retroactive to 1972 when the base amount was set. NCOA does not endorse a recomputation or refund of premiums paid during the period from 1972 to enactment of this legislation because it would be virtually impossible to accomplish. However, by adjusting the base amount in this manner, a more reasonable premium distribution will be established.

In the years since the SBP program was established, premiums for equal benefit coverage have risen more than 70 percent because retired pay increased but the insurable base amount did not. For example, an E-7 electing maximum SBP coverage in 1972 forfeited about 4.5 percent of retired pay for the coverage. Today, maximum coverage of retired pay for an E-7 is almost 8 percent of monthly retired pay.

This disproportionate rise in premium costs is the single largest transgression in shifting the distribution of program support from 60:40 to the current 72:28 ratio enjoyed by the federal government. Increasing the base amount, either by formula as NCOA proposes or by choosing an arbitrary $500 or $600 figure, will restore an equitable cost share distribution in the plan.

SPOUSAL CONCURRENCE

"The rights in retirement pay accrue to the retiree and ultimately, the decision is his as to whether or not to leave part of that retired pay as an annuity to his survivors," according to last year's report on survivor benefit plan amendments contained in H.R. 10670. In NCOA's opinion, nothing has occurred to substantially alter this view. Hence, the Association is adamantly opposed to spousal "veto" as contained in the House bill.

As foundation for its proposal to require spousal concurrence for any election of SBP totaling less than the maximum allowable coverage, the House has relied on recent changes in the civil service retirement program and the Employee Retirement Income Security Act (ERISA). However, neither requires spousal consent for less than maximum coverage but only if coverage is not elected. This may seem a small point, but it generally allows retirees to reserve the decision unto themselves. Also important in discussing the differences between civil service, ERISA and SBP is the age of the retiree.

Retirees covered under the civil service, foreign service and ERISA are on average 18 to 25 years older than military retirees eligible for SBP. The average military retiree will live for 32 years after leaving the service; substantially longer than his civilian counterpart and more than long enough to provide an SBP alternative.

As a head of household and as an individual generally responsible for the support of a family at the time of retirement, a servicemember is often faced with a difficult choice of providing for his family's current need as opposed to the future. There is not a man or woman, unless they are independently wealthy, who has not had to forsake an opportunity for the future in order to provide for the present. In many cases, SBP enrollment is affected in this manner. And, frequently these decisions can be made best by the individual most responsible for the recriminations. Indeed, could anybody honestly say he or she would function effectively if every difficult decision made was subject to concurrence by some other individual. Everyone knows and appreciates the value of consultation when considering difficult alternatives, but at the same time they know that normally only one person makes the final decision.

Congress cannot impose morality on military retirees by requiring them to provide an annuity for their survivors. Neither can Congress legitimately attempt to distribute that decision among the retiree and the beneficiary of such an annuity. The system already imposes shame on those who elect not to participate.

If Congress really wants to aid retirees, provide them an opportunity to establish themselves in a second career. Allow them to reasonably consider their ability to provide an alternative to SBP. Don't force a difficult and expensive decision on a 41-to-45 year old man with a wife and two children to support who's seeking civilian employment. Create a reasonable, perhaps two-year small premium SBP and allow the individual to make a decision on a permanent plan two years after retiring from the service. Participation in the program is likely to increase substantially.

DEPENDENT CHILDREN

Section 676 of the House bill is specifically aimed at providing divorced retirees who have children an opportunity to divide SBP coverage among the former spouse and his or her children. This change will substantially benefit children and therefore has the Association's full support.

Another change proposed in Section 677 will extend SBP payments under certain circumstances to a surviving child in the absence of a surviving spouse. While the report language discusses the death of the surviving spouse as a result of a common disaster with the servicemember, the language of the bill itself makes no similar discrimination. NCOA sees no reason why a child should be deprived of this benefit if the spouse has predeceased the member or is otherwise unavailable to assume custody. We support this provision but hope the committee will seek a clarification of its intent in the conference report.

SUMMARY

NCOA supports most of the new amendments proposed in the House bill, some with reservation or modification only as expressed in this statement. Hopefully, the recommendations made herein can be applied to create a much more attractive program so that surviving spouses and children will have a basic annuity that is as fair and equitable to one as the other.

However, the Association firmly believes an open enrollment period should accompany the changes made in this legislation. The proposed provisions; eliminating the social security offset in favor of the two-tier benefit, opening enrollments on behalf of children under some circumstances, and indexing the base amount; make the program substantially more attractive and easy to understand. Should Congress enact the spousal concurrence provision an open enrollment provision would be imperative. NCOA also believes RSFPP subscribers should be allowed to join or convert without penalty. Last, but not least, new subscribers should have a short period after retirement in which to establish continued participation.

Senator WILSON. Thank you very much, Sergeant Major.

Let me ask one question to all the association witnesses. Each of your associations advocate changing the House plan to a 40 percent second tier rather than the 35 percent provided in the HASC version. The Retired Officers Association says this will restore the viability of SBP as a major element in the total compensation package. We have already heard DOD's estimate of the additional cost to the government of such a change; they estimate that it will require an additional $100 million.

What, in your judgment, will the government get for that additional $100 million of costs? Will either recruiting or retention improve if the 40 percent is adopted? Just what role do you see the SBP playing in the compensation package?

Colonel ARCARI. Well, sir, first of all I did check the Congressional Office and they estimate the cost the first year would be $80 million for going to the 40 percent second tier.

In terms of recruiting and retention, I do not think you can quantify the direct benefit. If you think in terms of the total compensation package and the erosion of the survivor benefits which has already occurred because of high three averaging, and which will occur this year because of actions ongoing in the House and Senate, this will help restore survivor benefits to an adequate protection level for the survivors of our future retirees, and that would be the stand or point we would make on that, sir.

Ms. LOCKE. I would like to add that particularly for spouses of service members who have been working, the loss of the waiver is quite significant. If you stayed at the 55/35, the spouses who are working would get nothing out of the House plan. So, at least by going to 55/40 there is some additional benefit for those spouses who are going to lose the waiver. As more and more of our spouses are working and eligible for their own retirement through Social Security, this could be quite significant.

Senator WILSON. If I understand your argument, Ms. Locke, you support retention of the Thurmond amendment and going to the 40 percent?

Ms. LOCKE. Well, it is my understanding that you really cannot have both, since the concept, as Mr. McKinney explained in his testimony, is really a breakage with the special interest groups, as he calls them.

Senator WILSON. One of the questions I have for him is just who those special interest groups are. I think you are correct in your assumption that it is the rationale of the HASC change that the two-tier system will replace in the elimination of the Social Security offset.

Ms. LOCKE. I think General Chavarrie brought up an important point. At least for a year after the waiver was passed there were certain people who probably made the decision based on having that waiver going into effect. At least some grandfathering should be recommended for those people.

Senator WILSON. Sergeant Major?

Sergeant Major MCKINNEY. The effect on recruiting and retention I think would be a guestimate on anyone's part. I do not know whether it would have anything—any changes in the survivor's benefit plan would have anything to do with either one.

The point that I think is important here is that we need to provide a survivor's protection plan for our military spouses and widows, or otherwise we come up again with the same problem we had prior to 1972, and even today we are looking at the number of forgotten widows that we have out there in the military community that are not being served either by the COP, the old RSFPP, or the Survivor's Benefit Plan.

With only a 44 percent or somewhere in that neighborhood participation on the enlisted side, which is far below that of the officers' side, we have to make it attractive enough to make these people want to respond and participate.

Senator WILSON. Your answer is essentially that the real reason should be fairness. I also gather that you think that although it is impossible to quantify it does make a difference or could prospectively make a difference in the ability to retain.

My own judgment is that it would affect retention to some degree. I do not know that it will affect recruiting very much. I rather doubt that, for the reason, that in the first instance most 18-year-olds are thinking of only one survivor, and that is me. They are not, at that point, concerned about spouses. Most do not have spouses then and, at that age probably are not sure they ever will.

I think that essentially what we are talking about is both fairness and also the ability, particularly in the senior enlisted ranks, to retain some people who otherwise could be persuaded to go to the private sector.

Would each of you concur that if a 55/40 percent plan were adopted that is not just a simplification of the existing program; it would in fact be a substantial enhancement?

Colonel ARCARI. Yes, sir, in terms of the overall plan a substantial enhancement, but again for those who lose out or will be disadvantaged by the change in the concept it would not be an improvement. Yes, sir.

Ms. LOCKE. I also would agree that for the majority it will be a substantial improvement, and because it is so much simpler to explain to people I would expect the participation rate would go up.

Along the line you asked earlier about the retention factor. I know from personal experience that it was a great sense of relief when I recognized that once my husband passed 20 years, and remained on active duty, that we did have the protection of SBP. SBP should be sold more to the active duty community so that they can recognize the value of it and possibly plan even before the 20-year, for example, taking term insurance up until they are eligible for SBP.

Sergeant Major MCKINNEY. I rather agree with the Colonel on that, without stretching the point further.

Senator WILSON. Colonel Arcari, you essentially recommend grandfathering of the Thurmond amendment because failure to do so would result in a significant loss of benefits for many beneficiaries. Would you concur that no person has at this time received any financial benefit from the Thurmond amendment and that no person would receive such a benefit before October 1985, or do you subscribe to the point that has been made that there is a small group which has relied upon the congressional intention?

Colonel ARCARI. Being in the latter category, I would probably have to disqualify myself from that part of the answer, but in terms of anybody having lost or having a potential for losing money based on repeal of the Thurmond amendment, the answer is no, they will not lose.

But I think the more important point, sir, and this is the underpinning at least of our organization, we did widely publicize the Thurmond amendment in last year's law. We advised our members that, "Eureka, we finally have achieved our objective." If you have earnings in your own right, you will not have a Social Security offset.

And while 10 percent may be conservative, the number is potentially 27 percent based on a recent Social Security Administration survey of working spouses who have earnings in their own right. It could be a fairly substantial number who would be disadvantaged if the Thurmond amendment were repealed.

Senator WILSON. I am not nitpicking, but I am curious, because you mentioned the fact that you did, in your publications, put out a bulletin to the effect that there was this change in the law, which you welcomed. Did that notice also provide information that Congress was taking a 1-year period to look at this, that it was in fact to provide them with some experience? Was that indicated?

Colonel ARCARI. I would suspect it was not, although we did say the law would not go into effect before payments due after September 30, 1985.

I think there is a subtlety there, sir. When we tell people Congress has done something, we are suggesting that their protector has done something with no ulterior motive. If we were to go out and say they have done this for you but they have delayed the enactment for 1 year because they would like to find a solution which would abrogate that provision of law, I think then we would lose credibility also.

Senator WILSON. Sergeant Major, your association strongly opposes the spousal consent provisions contained in the House proposal. What would your association's view be of a proposal which would provide, that if the member and spouse cannot agree on this issue, that the spouse could require the member's participation but that the spouse would be responsible for the payment of the premiums under SBP?

Sergeant Major MCKINNEY. Well, I really have not looked at it in that respect, and I may have to think that over a little while.

Senator WILSON. You may want to talk it over with your wife. [Laughter.]

Sergeant Major MCKINNEY. I would just like the chairman to understand that I run my household, as long as I do not go in the front door, or the back door for that matter.

One of the problems we have in the spousal consent is the low retirement pay of the majority of enlisted personnel that retire. The majority of enlisted personnel are in the E-6 and E-7 pay grades, and an E-6 right now retiring would draw just a few bucks over $700 a month. If he were to take the base amount, of course, the cost is only $7.50.

But if he wanted to take the maximum coverage under the survivors benefit program, that is $47.50 a month out of a $700 a month payment in retired pay. When an E-6 or an E-7—and an E-7 is only drawing $100 more—when an E-6 and E-7 are out there looking for work, and they have a wife and two children to support, there could be a misunderstanding between the husband and wife as to how much money is needed to survive in the beginning of the retirement years and the transition to civilian life.

That is one of the main reasons we object to the spousal consent. We feel that at that time, when the household will suffer a dramatic drop in income, someone has to make that decision of whether or not they can afford to pay that kind of money out, which in many respects could relate to a week of food, a week's cost of food, in that household for that E-6 or E-7.

Senator WILSON. For that reason, and I fully understand what you are saying, I understood you earlier to express support for the idea of allowing the decision to participate to be made after retirement.

Sergeant Major MCKINNEY. Yes, sir.

Senator WILSON. Would you favor as an alternative continuing the requirement for a decision at the time of retirement but allowing a withdrawal within a period of 2 years thereafter?

Sergeant Major MCKINNEY. We discussed this to some extent, and we believe that about the fairest method might be to say that every retiree would enroll in the base amount, but give them 2 years to determine and make the decision whether the member will continue at the minimum or will opt out of the program or will take the maximum. We feel that 2 years is sufficient time to allow that member to get out and make that transition into civilian life.

They will fairly well know what their budgetary program will be and we have a lot of our people taking a year to find a job. And so for that reason we have mentioned in our statement a 2-year period to allow them to make that decision.

Senator WILSON. All right. Thank you.

Colonel, I might ask you that same question.

Colonel ARCARI. Yes, sir. We would generally support an opt-out period. Being a recent retiree, I can attest to the fact that if I had not made the SBP decision before I retired I think I would be reluctant to take the max coverage election now, only because you get set on a fixed income, fixed expenditures. Once you are living that way, to suddenly decide where to find an extra $77.50 as an enlisted member and another $200 as an officer, I think you would be hardpressed to make that kind of decision.

I prefer to see the current procedure, with the opt-in on the date of retirement, and then 2 years later have the prerogative of opting out.

Senator WILSON. Sergeant Major, that is sort of the way that we had thought of it as well. It is a more difficult decision to opt in altogether, 2 years out, for precisely that reason.

Sergeant Major MCKINNEY. Well, our big problem is simply with that income of that family at the beginning of the transition period. You take the E-6 or E-7 and he is losing somewhere around 60 to 65 percent of the total compensation of that family upon retiring, and it is a tough decision to look at the SBP program, wanting it but not having the finances to go along with the maximum amount.

Senator WILSON. Ms. Locke, in your formal statement you indicated that your association supports the spousal concurrence provisions. Would you explain the basis for your support of the spousal consent requirement in the event of remarriage after retirement? If the new spouse were not married to the member during any of the member's active service, why should that new spouse exercise control over the disposition of the member's retired pay earned during an earlier marriage or while the member was not married?

Ms. LOCKE. I probably should let General Chavarrie answer that, because it is a good question. Clearly the spouse who shared service life with the service member is more involved in the earning of the benefit, as opposed the spouse acquired in postretirement. Again, you get into the problem of the law, and a spouse is a spouse.

But I would not necessarily have problems with taking away spousal concurrence in the second marriage in postretirement. I am not sure that our association really has taken a stand on that.

Senator WILSON. In that case you may not have an answer to this question, but I will ask it so that the association can at least consider it. Do you concur that the House proposal would permit a member, who has a former spouse at the time the member retires, to designate that former spouse as the SBP beneficiary?

Ms. LOCKE. Absolutely, Senator.

Senator WILSON. And thereby exclude the present spouse from coverage?

Ms. LOCKE. Absolutely, if the member made that decision.

Senator WILSON. You are certainly clear on that point.

[Laughter.]

Your organization supports that provision.

Senator Exon?

Senator EXON. Mr. Chairman, thank you very much. I apologize to you, Mr. Chairman, and to the witnesses who are here today. It just so happens this is one of those mornings. I have three other committee meetings and I had to introduce a group of Nebraskans at another meeting with regard to a wilderness act, so I apologize that I am late.

I have no questions. I just wanted to say that this is a tremendously important decision that has to be made. I want to thank each member of the panel that sits there now. I want to assure you that we appreciate very much the fact that you came here to testify. We listen with great interest. We are dealing today with difficult things that are sometimes brushed aside.

So I am delighted that you had this meeting, Mr. Chairman. I will review the record because, as the Chairman knows and as the witnesses know, I am very much involved and very much interested in fairness in this whole area. Thank you for being here and thank you, Mr. Chairman.

Senator WILSON. Thank you, Senator Exon. I know of the other demands on your time. I hope you made my excuses at some of the other meetings. I also know of your intense interest in this subject, and I think we will have a very good record for you to review. The testimony we have heard this morning was right on point and these are tough questions.

This is a highly complex area. I think we all share some frustration at its complexity and would welcome an opportunity to make it simpler, if we can do so fairly. We would like to make the Survivor Benefit Program what is was initially intended to be.

Again, let me invite those associations who did not have representatives at the witness table today to be represented in the form of written testimony. We will keep the record open for the receipt of whatever you care to submit, until the close of business on Wednesday, June 26.

[Additional prepared statements submitted for the hearing record follow:]

PREPARED STATEMENT OF CHARLES C. PARTRIDGE, LEGISLATIVE COUNSEL, THE NATIONAL ASSOCIATION FOR UNIFORMED SERVICES

Mr. Chairman and members of the Committee: I welcome the opportunity to present the views of the National Association for Uniformed Services (NAUS) to this distinguished panel.

NAUS is unique, in that, we represent all ranks of uniformed service personnel and their spouses, and widows(ers). Our membership includes active, retired, and reserve personnel of all seven uniformed services. With this membership we are able to draw information from a broad base for our legislative activities.

TWO-TIER CONCEPT

The most substantive change in the Survivor Benefit Plan will eliminate the social security offset and provide for a two-tier annuity payment of deceased members of the uniformed services. The plan would offer an annuity equal to 55 percent of the member's covered retirement pay to the surviving spouse until age 62; the payment would be reduced to 35 percent at age 62.

The House amendment makes the program easier to understand and eliminates the difficulty in computing the actual value of the annuity after age 62. Additionally, it is more closely aligned with the cost ratio of the civil service survivor benefit plan.

NAUS believes that the most equitable solution to the problem would be elimination of the offset completely. However if the offset is to be made part of the SBP program, it should be changed from 35 percent of retired pay to 40 percent. This will provide a more attractive incentive for retiring service members to subscribe. Further the age that the offset takes effect should be changed to the age that a person is eligible to draw full social security or the age that the person actually begins to draw it, but in no case earlier than age 62. This provision would insure that if the age for eligibility for social security is increased, the SBP reduction would not take place unless it is available to help close the income gap.

Further, surviving spouses who have earned social security based on their own work record and who are protected under the amendment passed in 1984 must be provided protection under these provisions. Many have made plans based on the October 1, 1985, effective date of the social security offset protection and to void that protection at this time would be a breach of trust.

INFLATION PROTECTION

The single most important feature of the Survivor Benefit Plan was not mentioned in the House Armed Service Committee proposed changes. This feature, the cost of living adjustment (COLA) to retired pay and to the SBP annuity is essential to the viability of SBP. For example, the administration proposed to freeze the COLA in fiscal year 1986, then provide COLA's at 2 percent below the consumer price index. If this were adopted and made permanent it would have destroyed the value of SBP. Assuming an inflation rate of 5 percent, the proposal would have reduced the value of SBP for the surviving spouse of a typical retired E-7, to 27.5 percent of the purchasing power that the retiree had at the time of retirement. Couple this with a 35 percent two-tier reduction at age 62, and the value of SBP drops to 9.6 percent of the purchasing power that the retiree and his family had at the time of retirement. Put another way, $1,000 in retired pay (which is slightly more than an E-7 with 23 years in service receives each month) would have a value of only $96.25 for the surviving spouse when her husband dies since she would have already reached age 62 and the offset would be in effect. Fortunately, the legislative and executive branches have provided COLA protection over the years. NAUS' view is that such protection is absolutely the most essential feature of the SBP program if its value is to be preserved and surviving spouses are to be provided enough to live in comfort and dignity in their later years.

BASE AMOUNT INDEXING

Indexing the base amount for calculation of the reduction in retired pay is a welcome change to the SBP program. The current $300 base amount, as a percentage of retired pay, which has been in effect since 1972, has been seriously eroded by inflation. Its value should be somewhere between $680 to $750. Therefore, NAUS recommends that the base amount be immediately raised to $700 and provisions for indexing be made in the future.

SPOUSAL CONCURRENCE

The provisions in the HASC proposal allowing the spouse to veto the servicemembers decision not to participate in the program is the wrong solution to a serious problem.

The initial period of retirement is a time of turbulence, change and economic uncertainty for the retiree and the family. It is the wrong time for a service family to be asked to make an irrevocable decision regarding their economic future. The SBP decision is often the single most significant financial decision a retiree will make. Rather than introduce the idea of spousal veto, the current law should be changed to provide an additional option, based on sound actuarial principles, allowing the service member to increase, decrease, or otherwise modify the decision for up to 24 months following retirement. This will provide the service member, and perhaps the spouse, time to begin second careers, to assess earning potential under more realistic conditions and for the service member and family to work out under less stressful conditions, arrangements for the financial future of the family.

OTHER PROVISIONS

NAUS concurs in committee proposals to allow the service member the option not to resume coverage upon remarriage. Also, the option to include child coverage both as relates to children of divorced parents and in the event the spouse predeceases the member or dies with the member in a joint accident are excellent provisions and NAUS supports them.

SUMMARY

NAUS supports amendments to SBP proposed in the House bill with the changes as expressed in this statement. We believe that the provision to "grandfather" survivors, those currently retirement eligible, and retired is necessary. Likewise, the save pay provision should also be extended to surviving spouses who have earned Social Security by their own work records. This would require that the 1984 amendment by Senator Thurmond remain intact for all survivors, retirees and retirement eligible individuals. NAUS opposes passage of this bill in the form as recommended by the House Armed Services Committee and would support awaiting the new plan under development by the Department of Defense unless the HASC proposal is modified.

PREPARED STATEMENT OF MAJ. GEN. ROBERT F. COCKLIN, USA RET., EXECUTIVE VICE PRESIDENT, ASSOCIATION OF THE UNITED STATES ARMY

STATEMENT TO THE SUBCOMMITTEE ON MANPOWER AND PERSONNEL, SENATE ARMED SERVICES COMMITTEE

I am Major General Robert F. Cocklin, Executive Vice President to the Association of the United States Army. Our Association of 160,000 members consists of Commissioned Officers, Enlisted men, Department of the Army civilians and just ordinary citizens who are interested in the Army and its people. I very much appreciate this opportunity to present our views on the Survivor Benefit Plan (SBP) and especially those changes to SBP proposed by the House of Representatives as outlined in H.R. 1872.

During the past few weeks we have examined the changes to SBP proposed by the House; we have also discussed them extensively with other military associations.

From this effort we have reached certain conclusions about both the plan and the proposed changes.

Since Congress established the SBP for the military in 1972, responsible officials have been disappointed by the low participation rate—currently at approximately 52 percent. The major reasons for this appear to be the plan's complexity and the little understood Social Security offset when a beneficiary reaches age 62.

The Social Security offset is undoubtedly the source of much discontent and misunderstanding of SBP among military members. When a widow is age 62 or over and is entitled to a widow's Social Security survivor payment based on her husband's covered employment, whether she actually receives it or not, the SBP law requires that her SBP annuity be reduced. This reduction is based solely on the value of wage credits earned by her husband during active military service after December 31, 1956. His wage credits earned in civilian employment have nothing to do with reducing the SBP annuity—only active military service performed after 1956 is used for this purpose.

The Social Security offset creates a perception among military members of a gross inequity. Since 1957 they have been paying into the Social Security program; at retirement, if they chose to participate in SBP, they also are paying for this program. Yet when it comes time for a survivor to begin receiving benefits from both programs their government reduces benefit payments from one program (SBP) by the amount of the other.

Clearly, it seems to us, removal of the Social Security offset as the House of Representatives proposes by offering a two-tier annuity system will both reduce the complexity of the plan and remove a major irritant to participants. However, the House two-tier system, paying 55 percent of retired pay to age 62 and 35 percent thereafter, is in our opinion not attractive enough to result in significantly greater participation. A 55/40 combination would more likely be perceived as a benefit to all participants and should encourage higher enrollment in the plan. AUSA recommends a system of a 55/40 combination payment.

Another proposal of the House of Representatives which we support is to index the base amount of SBP. The current minimum or base amount is $300 and was established in 1972. Inflation has eroded the value of this base by almost 50 percent, and has increased the cost of participation in SBP by members. The original cost sharing ratio of 60/40, member/government has fallen to 73/27 as of 1984. Increasing the $300 minimum base at the same time and by the same amount as the retired COLA will insure SBP cost ratio remains stable.

Finally, there is in the House SBP recommendations a provision presumably designed to improve equity and consistency with the survivor benefit plan for civil servants. We do not support this proposal, which would require spousal consent before a member could elect not to participate in SBP.

The decision whether to leave a part of retirement pay as an annuity to survivors should remain the member's. Requiring spousal notification is appropriate to ensure that the spouse is informed and understands the effects of a member's election. However, requiring spousal consent as a precondition to non-selection appears to redefine the SBP as a spousal entitlement and removes the SBP election decision from the hands of the member who has earned the retired pay through a career in uniform. AUSA does not support this provision.

We do appreciate the intent of the proposal and the need to protect spousal interests, therefore, we would not object if spousal consent were to mandate minimum rather than maximum participation by the member.

In summary, AUSA recommends that the two-tier annuity be set at the slightly higher rate of 55/40 because it would more clearly be perceived as a benefit to all participants and would be more likely to increase participation levels. At the same time we suggest that in those instances when member-spouse cannot agree on participation that the minimum ($300 indexed), rather than the maximum amount be mandated. We do support indexing the base amount as a sound fiscal provision for the SBP.

PREPARED STATEMENT BY ROBERT W. NOLAN, NATIONAL EXECUTIVE SECRETARY, FLEET RESERVE ASSOCIATION

INTRODUCTION

Mr. Chairman and distinguished members of this Subcommittee, I am Robert W. Nolan, National Executive Secretary of the Fleet Reserve Association. The FRA is comprised of 168,002 career enlisted personnel and commissioned officers with prior enlisted service of the U.S. Navy, Marine Corps and Coast Guard. As a retired Navy Chief Petty Officer it is my privilege to present their views on the vital subject of military survivor benefits.

The Fleet Reserve Association was the originator and prime mover of the legislative program, "Widow's Equity" in 1968–1972, to gain an equitable survivor benefit plan for military careerists. FRA drafted the provisions of the original legislation, H.R. 6226, which U.S. Representative Charles S. Gubser (R-CA) introduced on 5 February 1969 in the 91st U.S. Congress.

A week after the late Chairman L. Mendel Rivers of the House Armed Services Committee appointed a Special Subcommittee to investigate military survivor benefits on 19 June 1970, U.S. Senators Barry Goldwater and George Murphy introduced H.R. 6226 as S.4015 in the U.S. Senate. Our "Widow's Equity" campaign ended successfully on 21 September 1972 when President Richard M. Nixon signed S.3905 into Public Law 92-425 establishing the Survivor Benefit Plan.

PRESENTATION

From the beginning of our Widow's Equity campaign we met one constant objection to FRA's survivor benefit proposal. No matter where we turned, the Pentagon, the Congress or the Administration, we were told we must accept the philosophy of integration of the survivor's benefit and militarily-earned Social Security in the surviving spouse's annuity when the spouse attained age 62 and was eligible to receive Social Security benefits. We reluctantly accepted the provision to gain a survivor benefit plan. However, we predicted that after 1977, when military careerists would begin a full military career of Social Security coverage the value of the Survivor Benefit Plan would decrease to the retiring individual and the SBP would not achieve its desired participation. Furthermore, the direct linkage to Social Security would work adversely on the SBP because each time the Social Security law is changed it would impact on SBP. The record of the past thirteen years supports the FRA's prediction. For example, I served on active duty five years and eight months after 1 January 1957 when Social Security coverage was extended to military personnel. At the time of SBP's passage, the value of my five years and eight months of militarily-earned Social Security was estimated to be about $70.00 a month. Today, because of the changes in the Social Security laws, the value of the five years and eight months of militarily-earned Social Security is now estimated to be close to $200!

SBP's direct linkage to Social Security defies common sense logic. The current law offers a military careerist who is retiring the option of enrolling in SBP to protect his dependent survivors. We can explain to him what those survivors will receive depending on the options elected but only until the surviving spouse is aged 62! At that point the SBP annuity loses all of its allure and attractiveness. There is no wonder military personnel about to retire are not electing the SBP pig in a poke!

The FRA acknowledges the equity of the government's rationale for taking the value of social security and other entitlements into consideration when determining reasonable income replacement for surviving spouse of military retirees. Our quarrel was in the impractical and inequitable policy of direct linkage to Social Security benefits. The House Armed Services Committee in its proposal to establish a two-tier system Survivor Benefit Plan has achieved a practical and workable solution to SBP/Social Security integration conundrum. The Fleet Reserve Association heartily endorses the House Armed Services Committee's proposal of a two-tier system Survivor Benefit Plan.

The Fleet Reserve Association offers the following comments on the other provisions of the House proposal for the Senate's serious consideration:

a. That the two-tier annuity be established at 55 percent of the base elected until age 62 and at 40, vice 35, percent thereafter.

b. That the basic $300 minimum SBP election be increased by the same rate of C.P.I. inflation since 1 October 1972, and establish that amount as the new SBP minimum base and then indexed by the C.P.I. percentage the same as federal retired pay.

c. Inasmuch as the entire philosophy of the Survivor Benefit Plan has changed with this new two-tiered system of benefits, we believe it is only fair to all military retirees who justifiably did not elect SBP's pig-in-a-poke, to have another opportunity to provide for their surviving spouses. Therefore, the FRA urges this Subcommittee to propose a minimum two-year open enrollment to all military retirees not participating in SBP. Such an option will assuredly save future military widows from becoming impoverished and a needless financial burden on the public.

Based upon our experience with impoverished military widows, the Fleet Reserve Association feels the wisdom and benefit of requiring both the retiring military member and his or her spouse to jointly elect to not participate in SBP or to participate at less than the maximum, is a wise provision and we heartily endorse it. We sincerely believe the prospect of another destitute military widow outweighs the argument of individual rights of the military retiree in the case of his military retired pay.

The House proposal does not address the inequity and the plight of the "forgotten widow". FRA is not sure if their pitiful state can best be remedied in this or separate legislation. However, we recommend that this Subcommittee resolve the inequity of the "forgotten widow" and we pledge the full support of the Fleet Reserve Association towards this goal.

Mr. Chairman, as American citizens, we prize our representative form of government. Today's hearing is an example of that government at work in its purest form. Military careerists of all Services realize this and that is one reason we are willing to devote the major portion of our adult lives in preserving our representative government. The FRA sincerely appreciates this opportunity to present our views. I stand ready to answer your questions. Thank you.

PREPARED STATEMENT OF JEAN ARTHURS, NATIONAL ASSOCIATION OF MILITARY WIDOWS

Mr. Chairman and members of this distinguished committee, I am Jean Arthurs, president of the National Association of Military Widows. We thank you for the privilege allowing us to contribute our statement to this hearing on the Military Survivor Benefit Plan.

Our association is an all-volunteer organization and our membership represents all ranks of career and non-career widows of the seven uniformed services. We have members in every state of the union. Our broad base reinforces the need for equitable legislation to benefit these fine women who have served our country so well.

With a few reservations we endorse the House Armed Services proposal. The present military survivor benefit plan is a complex enigma. So few understand the program and the ramifications thereof. Our association has become a clearing-house of information for the widow, the media, the Congressional staffs, and even various units of the Department of Defense.

It is difficult to understand that due to the social security offset the survivor benefit annuity is almost eliminated in some cases. With the social security and dependency and indemnity (DIC) compensation offsets coupled against the survivor benefit annuity very little remains, if any, of the SBP annuity.

It is very difficult for military widows to accept the social security offset. Their sponsers paid into two separate funds, the social security fund and the survivor benefit fund, and each became due on the death of their sponsers, and both should be paid, accordingly.

The present law forces our widows to request social security at age 62 due to the social security offset regulation of the survivor benefit law. The SBP annuity is automatically reduced the month of her sixty-second birthday, so she really has no alternative but to apply for social security. This means the widow does not receive the full social security payable at age 65, but rather the 80% of benefit received at age 62.

We question what will be the disposition of the dependency and indemnity compensation (DIC) offset for those who are eligible due to the death of the sponser from service-connected causes. With the 55–35 formula will the widow lose the survivor benefit annuity if the DIC compensation is comparable? The DIC offset presents a very sensitive issue to those who have lost their sponser through service-connected death. Dependency and Indemnity Compensation is considered compensation for the serviceman giving his life for our country, and constitutes an entirely separate issue from the survivor benefit program.

A reasonable modification to the HASC Plan would increase the age 62 factor to age 65 so the widow would be entitled to her full share of the social security annuity.

The National Association of Military Widows strives for equity among all Federal survivor benefit programs. Our study indicates that the proposed 55–35 Plan would be more equitable on a 55–40 basic proposal. The contingencies have not been well defined. Many of our widows are victims of the expensive Retired Servicemans Family Protection Plan, in that the program proved to be out of the reach of eighty-five percent of those eligible to participate in their eighteenth year of service. The best description of the RSFPP was that "you had to be rich or crazy to subscribe to it. As a result we have what is known as the "forgotten widows".

The "forgotten widows" refers to a group of older women (60 to 90 years of age) who are widows of career servicemen (with 20 to 40 years of service), and, as yet, are not covered by the Military Survivor Benefit Plan passed September 21, 1972. The reason for this inequity is the fact that, unlike the Civil Service Survivor Benefit Plan passed in 1948 the 1972 military legislation was not made retroactive.

There have been two 'open periods' for military retirees to participate in the present survivor benefit program. Among them are many who could have subscribed to the RSFPP and could not afford it, and now are covered with the SBP. Unfortunately, an 'open period' for the widows was not included in the plan.

These widows, some of whom are not eligible for social security because their husbands were retired before this benefit was made available to them, must struggle against a great number of economic problems. The ever-increasing inflation, evictions as apartments become condominiums, high taxes are proving too much of a burden to many of these good service widows. The transient lifestyle of military life precluded the establishment of the basics accepted as normal. In their military lifespan pay was very low. Military housing did not exist as it does today and living on the economy was prohibitive—if the family was to stay together the price had to be paid.

A past Secretary of the Army stated: "When the government contracts for the serviceman, it really contracts for the entire family unit as it includes ALL THE FAMILY in the adjusted lifestyle, the 24-hour call, the 'perils and discomforts' with readiness to serve anywhere, to go to hazardous places at a moment's notice.

Legislation has been passed allowing Retirees and Reservists to take advantage of benefits provided by the Survivor Benefit Plan. However, the military widows have been given no "open periods" in which to gain access to coverage. We seek help in bringing this situation to the attention of Congress and correcting this inequity which has long ignored the plight of the "forgotten widows".

In support of this action it must be pointed out that in contrast to most legislation which has an ever-escalating cost factor to be considered, inclusion of the pre-1972 widows in the Survivor Benefit Plan would have a self-decreasing cost factor. This is due to the age of the widows—within 10 years the cost should decrease by more than half; by the turn of the century nearly all of the "forgotten widows" will be deceased.

We are hopeful that the Senate Armed Services Committee will call for additional hearings on the survivor benefit program so a more complete analysis of the problems associated with the SBP program may be scrutinized and corrected.

Thank you for allowing us to submit this statement.

Respectfully,

JEAN ARTHURS, *President.*

Ex-P.O.S.E.—Ex-PARTNERS OF SERVICEMEN FOR EQUALITY

Ex-P.O.S.E. is a nonprofit, volunteer organization founded in 1980. Its membership is composed primarily of women who are either already divorced or separated or who are in the process of divorce. Our special concern is the older woman whose primary career in her long-term marriage was that of an average of 25 years; some as many as 40 to 45.

We would like to comment on the changes in the Survivor Benefit Plan proposed by the House Armed Services Committee.

Since we were all military wives at one time, we feel it is essential to preserve the benefits a military wife earns by giving up her own career and the possibility of earning her own retirement benefits in order to support her husband and further his career.

We support the provision in the HASC proposal that would require the consent of the spouse in order for the member to elect not to take full coverage under the SBP (Section 674). It is only equitable that the military spouse should have the same right to receive a survivor benefit as do Civil Service wives and civilians.

We support increasing the base amount of $300 in accordance with the cost of living adjustments granted retirees (Section 673). Because the base amount has not been indexed, some retirees are paying 70% more for the SBP than they did in 1972.

The 2-tier plan (Section 672) would be simpler and far easier for participants to understand. However, a 55-40 ratio would more closely preserve the current benefits than would the proposed 55-35 ratio.

We support the provision to allow a divorced member to elect coverage for a child as well as for a former spouse. All military children need to be protected.

Ex-P.O.S.E. applauds the efforts of the sub-committee to improve the SBP to assure that the military widow is adequately protected. We hope in the near future you will consider further amendments to protect the divorced widow.

[Questions for the hearing record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR SAM NUNN

FORGOTTEN WIDOWS

Senator NUNN. General Chavarrie, are you familiar with the term "forgotten widows," wives of retired military members who died in retirement before the enactment of the Survivor Benefit Program in 1972? What provision was made for these widows in the 1972 SBP legislation?

How many of these so-called forgotten widows are there? What would it cost to provide them with an annuity under SBP based on their husband's retired pay?

General CHAVARRIE. Yes, we are familiar with the term "forgotten widows." Most, if not all, these widows were potential beneficiaries of the prior plans; the Contingency Option Act—COA—or the Retired Serviceman's Family Protection Plan—RSFPP. However, those who fall in the "forgotten widow" category are typically considered as those whose spouse elected to retain all their retired pay, not contributing to these plans, and therefore these widows have no government benefit. The same will be true in the future for those whose spouse does not elect the SBP. However, the old plans were more expensive and therefore it was believed, at the time the SBP was enacted, that some protection should be provided to ensure the existing widows of retired military members would not be destitute. Therefore, although a fixed benefit was not provided to these widows, a minimum income provision was enacted that guaranteed a very modest income through VA and Defense Department supplements if the income fell below a certain level. These protections still exist. However, due to changes in the VA laws, the protection for these widows can leave them with only $3825 of total income, less than the poverty level for an elderly person living alone.

We estimate there are about 24,000 forgotten widows and it would cost about $120.00 million a year to provide them with an SBP annuity.

Senator NUNN. General Chavarrie, can you describe the minimum income criteria in the 1972 SBP legislation under which certain "forgotten widows" can receive benefits under the SBP guaranteed minimum income provisions?

What is the total amount of benefits, both VA and DOD benefits, that these minimum income widows are eligible to receive from the Federal Government? How many minimum income widows currently receive this SBP supplementary income benefit?

General CHAVARRIE. Yes. The minimum income criteria for "forgotten widows" requires that they be eligible for a VA non-service-connected death pension and then become entitled to a payment from DOD which supplements their income up to $3,786. The VA then adds a supplemental amount which varies according to the law under which they have their VA entitlement. The VA benefit amount will raise their income to only $3,825 under the newest VA law. If they qualify under an old VA law, their VA payments are probably greater, but their total income is limited to either $6,493 or $5,683. Most "forgotten widows" who qualify under these old laws will not receive more than $1,000 from VA and thus have an income of about $4,800 maximum.

There were only 2,759 minimum income annuitants at the end of fiscal year 1984.

Senator NUNN. According to CBO, the poverty level for single individuals over age 65 is approximately $5,400 per year. The total government benefits for which these minimum income widows qualify is $3,825, or 70 percent of the poverty level.

In your view, should the minimum income for these widows whose husbands retired prior to enactment of the SBP legislation be increased? What would it cost to increase the benefits for these widows at least to the poverty level?

General CHAVARRIE. The Department has generally opposed the provision of extra benefits for these widows as they could have been covered under previous plans. However, it would clearly be a humanitarian gesture to ensure these widows of a poverty level income. We have no data on what VA payments our current annuitants receive and we also have no idea how many more widows would qualify under a higher income maintenance level. We estimate, however, an annual cost of $4.0

million for those who are on the rolls now. This could increase substantially because of the addition of other widows who do not presently qualify for any VA or DOD payment.

Senator WILSON. I thank the witnesses, and this meeting is adjourned.

[Whereupon, at 11:20 a.m., the subcommittee adjourned, to reconvene upon the call of the Chair.]

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